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Types of Strategies and their Impact for Russian SMEs:
the Case of the Coffeeshop Industry

Master's Thesis

by the 2nd year student

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“Humanity runs on coffee.”

Unknown

Abstract

Master Student's Name	Andrey Khromov
Master Thesis Title	Types of Strategies and their Impact for Russian SMEs: the Case of the Coffeeshop Industry
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Description of the goal, tasks and main results	<p>The goal of the research is to analyze the strategies of Russian SMEs and the way these companies use their resources and competences to choose a strategy to follow thus allowing them to acquire sustainable competitive advantages to achieve better development of the company. The multiple case study is conducted on the sample of 14 Russian SMEs from coffee house industry in Moscow, Saint Petersburg and Ekaterinburg. Based on the semi-structured interviews conducted with the owners and top-managers of these companies, the collected data was analyzed in order to pinpoint similarities and differences in the SMEs' approaches towards their strategies, as well as gain a deeper understanding of the motivation and internal processes of these organizations. The results underlined the strong support of owners and managers of strategy implementation. However, in practice despite strong support, the actual choice of a strategy and its degree of implementation vary widely across the sample. Based on the planning time-frame criteria, three groups of companies were identified as they demonstrated similarities in their strategy-related activities and approaches. The interview results revealed that the actual choice of a strategy and its implementation are linked to the stage of SMEs' development. This is explained by the connection between operation periods and the resources available and perception of the companies' stability with regards to external environment. The research results may prove useful to SMEs' owners as it can provides them with a roadmap of enterprise development and best practices among SMEs, especially in the coffee house industry. In terms of the theoretical contribution, the research adds to the conceptualization of the SMEs' evolution in Russia within the framework of Porter's three business-level strategies.</p>
Keywords	Business-level strategies, cost-leadership, differentiation, hybrid, resources, competences, sustainable competitive advantage, SMEs, Russia, coffee houses industry

АННОТАЦИЯ

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Название магистерской диссертации	Типы стратегий и их влияние на российские МСП на примере индустрии кофеен
Факультет	Высшая Школа Менеджмента
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Описание цели, задач и основных результатов	<p>Целью исследования является осуществление анализа стратегий МСП в России и процесса управления ресурсами и компетенциями для выбора стратегии для достижения устойчивого конкурентного преимущества и достижения лучших показателей развития компании. Анализ основывается на исследовании примеров 14 кофеен из Москвы, Санкт-Петербурга и Екатеринбурга. Данные, полученные в ходе полуструктурированных интервью с владельцами и топ менеджерами кофеен, были проанализированы для определения сходств и различий в стратегических подходах МСП, а также для того, чтобы лучше понять их мотивации и внутренние процессы. Результаты продемонстрировали большую поддержку внедрения стратегий среди владельцев и менеджеров кофеен. Однако, на практике выбор стратегии и степень ее внедрения значительно различается. Основываясь на показателях горизонта планирования организаций, были определены три группы компаний, которые продемонстрировали схожие подходы и действия, связанные с их стратегиями. Результаты интервью продемонстрировали, что выбор стратегии и степень ее внедрения связан с стадией развития российских МСП. Это объясняется связью между сроком работы с одной стороны и доступных ресурсов и восприятием стабильности компании по отношению к внешней среде с другой. Результаты исследования могут быть полезны для владельцев и менеджеров МСП, так как они могут служить дорожной картой для развития, а также источником лучших практик для МСП, в особенности для кофейной индустрии. Что касается теоретического вклада, исследование способствует лучшей концептуализации эволюции МСП в России в рамках концепции трех конкурентных стратегий Портера.</p>
Ключевые слова	Конкурентные стратегии, стратегия снижения издержек, стратегия достижения отличительных особенностей, гибридная стратегия, ресурсы, компетенции, устойчивое конкурентное преимущество, МСП, Россия, кофейная индустрия

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1. Introduction

1.1 Relevance of the study

Nowadays, small and medium enterprises (SME) are considered by the vast majority of economists as the backbone of any successful well-diversified economy. They provide customers with goods and services, create new jobs, increase market competition and drive innovation. For example, in the European Union SMEs of the non-financial business sector account for 56,8% of value added and 66,4 % of total employment (European Union, 2018). In terms of innovation, while comparing SMEs to bigger companies it can be seen that small and middle enterprises remain very flexible and innovative, which confirms that small size is conducive to flexibility (Bartz, Winkler, 2016). All of this undoubtedly contributes to the economic growth and shapes overall development.

In Russia the share of SMEs is relatively limited – 22% of total employment (Federal Tax Service, 2019). Nevertheless, the importance and contribution of this sector to the Russian economy is steadily growing, due to the fact that this type of enterprises is considered critical to secure and promote further economic growth and boost the country's competitiveness on global markets.

At the same time, SMEs remain vulnerable to external shocks, uncertainty and turbulent environments. The growing pressure of market competition from other SMEs and bigger companies, as well as a systematic lack of funding remain among the numerous factors that hinder SMEs' development.

As a result, many SMEs are destined to fail due to their inability to adequately respond to these external threats, especially during times of crisis. Often that happens because of lack of resources, functional skills and management experience (Fatoki, 2014). Nevertheless, not all firms fail, some of them manage to outperform their competitors in the very same external environment.

What are the factors that ensure companies' better performance? Some scholars argue that strategic behavior may be the determining factor dividing high-performing companies from their less successful competitors (Porter, 1985). In their study on strategic behavior, Tarkci et al. (2018) wrote that this is "searching for new strategic initiatives beyond the boundaries of current strategy". But in terms of SMEs' strategic approaches, the enterprises often avoid employing strategic tools and simply act according to the circumstances in the environment, employing tactical measures rather than following their strategies (Sharma, 2011). These measures are not aligned with strategic objectives and involve situational usage of the available resources. This does not help to acquire competitive advantages, i.e. the capabilities to use and combine the resources in order to provide the customers with value and which is difficult for the competitors to imitate. In turn, that negatively affects

companies' performance and hinders the potential of the companies to grow and develop (Banker, Mashruwala, Tripathy, 2014).

The case of Russian SMEs is extremely interesting to study, as these entities tend to operate in more difficult and hostile environments than SMEs in developed market economies. "Due to the fact that SMEs in Russia often do not have enough resources, limiting their opportunities for growth, they must find new ways of doing business in order to be successful and compete in both domestic and global business" (Shirokova, Vega, Sokolova, 2013). Considering the fact that this topic remains largely understudied in the existing academic literature, there is a serious lack of understanding of the strategic behavior of Russian SMEs in local conditions. The results obtained in foreign research on various economies should be taken into consideration while examining the Russian case. However, they cannot be fully relied upon as the studies indicate a significant national factor, that implies that the results of the SMEs' strategic choice may differ in accordance to the respective country. (Parnell, Long, Lester, 2015) That is why it is crucial to conduct a study on this topic in order to draw conclusions applicable to the realities of Russian business environment.

In this context, it is important to understand whether SMEs operating in Russia employ strategy in their activities, by what means they do so, how the strategic approaches or lack thereof are connected to their available resources, how the personal preferences of the owners and managers influence the strategic direction of the companies and whether these strategic measures actually contribute to improved performance against their competitors.

The coffee house industry was chosen for the empirical research. It is a fast-growing sector with high competition, relatively similar set of products and low entry barriers. At the same time, the applicability of generic strategies to the SMEs in the coffee house industry and the influence of their implementation is understudied. All considered, this sector seems to fit the objectives of this research as it will make possible to identify the patterns of SMEs' strategic behavior in conditions that are easily comparable.

1.2 Research Gap

Existent literature lacks an in-depth analysis of the linkage between competitive strategies (cost-leadership, hybrid, differentiation) and performance of SMEs in the Russian market. Moreover, the manner in which SMEs choose which strategy to follow also remains grossly understudied. This topic is partially developed using the data obtained from SMEs in different countries, however, is it not proven whether these observations correspond to the reality of Russian SMEs. Therefore, the question arises on the applicability of the previous research results to the context of the Russian

market. The lack of scientific research on this topic has direct implications on academic studies of SMEs in Russia, as well as prevents the practical application of such research by businesses on the local market.

1.3 Research questions and aims of the study

Research goal of the thesis is to understand the way the SMEs in Russia employ strategic methods and how strategic approaches are adapted to the Russian business environment as in the case of coffee house industry.

Research questions are the followings:

1. Do the Russian SMEs have clear strategic approaches?
2. How do these companies adopt strategies?
3. How do the chosen strategies influence the SMEs' development? Do the companies with the strategies perform and/or grow better?

Object: Small and middle enterprises in Russia operating in the coffee shop industry.

Subject: Strategic behavior of SMEs, determining factors behind their choice of strategic approach and the link between the performance and strategy.

The study is based on the interviews of the owners and top managers of SMEs in the coffee house industry. This is a fast-growing industry with a homogenous set of products and similar average costs across the country, which facilitates a fairer analysis of companies' similarities and differences in terms of their strategies, while controlling for industry-specific factors in the research conclusions.

All in all, the study is aimed at investigating the strategic approaches of SMEs in Russia, exploring new aspects of strategic choices made by the managers and business-owners. The chosen strategies are analyzed through the prism of their resources, competences and competitive advantages and their link to the financial results of the companies and their growth. The findings obtained as the result of the empirical study of the coffee houses in Russia include new insights in the sphere of SMEs' strategic planning and the factors contributing to firms' performance – the results that are able to contribute to the understanding of Russian SMEs' operations from both theoretical and practical perspectives.

2. The Role of Strategy for Small and Middle Enterprises: Theoretical Background and Empirical Studies

2.1 Basic Concepts and Definitions

In order to conduct the study, it is crucial to define the main concepts and definitions. I would like to begin with the definition of small and middle enterprises.

In terms of defining SME, it is important to emphasize the fact that there are different approaches to classify small and middle enterprises. Furthermore, there is no document or basic classification agreed upon by all main economic powers that determine what entities fall into the category of SMEs. Each country and organization have their own criteria. The main reason of the absence of consensus on the definition of SMEs is that the use of a unified definition of SMEs for countries with different levels of economic activity and development may lead to the incorrect assessment of the situation and, as a result, false conclusions. Especially, this is the case of emerging economies, where size and turnover parameters of SMEs should not be adjusted to the standards of developed economies, but rather be defined in accordance with the local market size (Gibson, Vaart, 2008).

For the purpose of this research SMEs are defined in accordance with the national classification of the respective market of study. In other words, this paper is based on the measurement criteria for SMEs used by Russian officials. According to the definition of Russian government, any company with 250 employees and less and an annual revenue of two billion rubles and less falls under the definition of small and middle enterprises (Table 1).

Table 1. Definition of SMEs in Russia

	Employees	Revenue
Micro	< 16	< ₺ 120 million
Small	< 101	< ₺ 800 million
Medium	< 251	< ₺ 2000 million

Source: Federal Law N 209-FZ, 24.07.2007, Act of the Government N 265

One of the core concepts used in the study and that should be properly defined is “strategy”. Over the years, scholars have been contributing to broadening and specifying of the concept of

strategy. As the result, there is a number of widely accepted definitions that include different factors, both internal and external, related to the company's strategic behavior.

In 1980 the American academic Michael Porter coined the definition that lies at the foundation of most of the approaches to the concept that appeared later. According to Porter, strategy is a «broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals» (Porter, 1980). This wording implies that strategy mainly deals with the way the company competes, setting and achieving its own targets. In spite of the fact that this concept covers the main factors of the companies' strategy, it still leaves certain gaps regarding other factors that can influence the strategic behavior of the firms.

Therefore, in order to correctly assess the strategies of SMEs, the author has adopted another definition for this study: «strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations» (Johnson, Scholes, Whittington, 2008). This wording seems to be broad enough to cover all main components of strategy. This definition implies the long-term nature of strategy, which is based on companies' resources and capabilities and accurately emphasizes the link to the environment of the firm. All these dimensions of the definition are crucial for the further study.

The scholars distinguish different levels of strategy: business and corporate. The business level is relevant for the operations of so-called strategic business units (SBU). SBU, according to the definition of Johnson, Scholes, Whittington (2008), is “a part of an organization for which there is a distinct external market for goods or services that is different from another SBU”. Based on this definition, it is to be mentioned that, generally, large organizations have numerous SBUs each of them having their own business level strategy. In order to manage these SBUs within one organization, its management has to develop corporate level strategy, in other words, to decide on which markets to operate and what products and/or services to focus on. Considering the fact that most SMEs are committed to one market (especially the coffee house industry), each SME represents a separate SBU. That is why, within the scope of this research, only business level strategy is analyzed. The terms “strategy”, “strategic approach”, “strategic options” and “strategic choice” are used as synonyms in this thesis.

All in all, in this chapter main concepts of SME and strategy were defined in accordance with the relevant sources and research targets.

2.2 Strategy and Enterprises

As every organization, SMEs operate under influence of internal and external environments. External environment is related to the factors that are not under control of the organization, i.e. the impact of the industry/market/region that cannot be changed, but to which companies need to adapt. On the other hand, the internal environment includes the resources and capabilities, possessed by the firms, allowing them to match their strategy to the external environment. In other words, this is the manageable part of SMEs' operations.

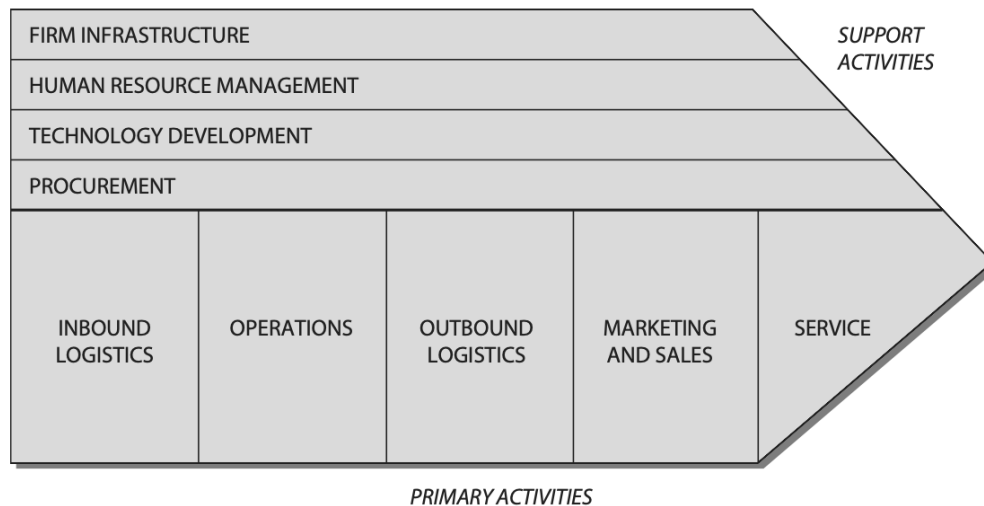
Core part of firms' internal environment is the resources that they possess which can be divided into tangible, intangible and human (Grant, 2016). Tangible resources are the easiest to measure and distinguish as they mostly pertain to physical or financial assets of the company (cash, opportunity to attract external financing, as well as land, property, equipment and machinery, mineral resources and expendable materials). Intangible resources are harder to define yet are very important to the firms' performance. Furthermore, investments into these assets significantly contribute to the performance (Cucculelli, Bettinelli, 2015). Among intangible resources we can distinguish among others such items as reputation and goodwill (related to brand-perception and external communication), technological resources (patents and copyrights, technological insights), the culture of the organization. The third group, human resources, is related to the skills and competences of the firms' employees (skills, competences of the staff, its communication and cooperation capabilities, and also its motivation). Studies demonstrate the positive correlation between using human resource practices (investing into employees' training and development, building the culture, promoting communication) and overall performance of SMEs (Sheehan, 2014), so this group of resources is no less important than the previous ones. These resources can be used by the management to find new opportunities, mitigate issues and threats and, as the result, increase company's performance (Indris, Primiana, 2015). But the mere availability of the resources does not guarantee higher performance. So how can the SMEs achieve better results?

In order to gain results from having the resources, a firm has to have or to develop its own capabilities. According to scholars, capabilities are defined as the "firm's capacity to deploy resources for a desired end result" (Helfat, Lieberman, 2002). The development of the capabilities based on the resources seem to be a critical factor of enterprises' performance (Wu, 2013).

M. Porter (1985) suggested the *value-chain approach* to identify and analyze the capabilities of companies. He divided the activities that the firm conducts into two groups: primary and support activities. The first group includes the processes directly connected to the product/service creation, its sell, deliver and communication with the customers. The second one includes firm infrastructure, HR management, technology development and procurement. Effective combination of resources

allows an enterprise to acquire capabilities. The visual representation of the value-chain approach can be seen in Graph 1.

Graph 1. Porter’s Value Chain



Source: Grant, 2016

Porter’s value chain is not the only approach to the analysis of the companies’ capabilities. Contrary to the value chain approach, another method called *functional analysis*, does not distinguish primary and support activities, but instead concentrates on the main functional areas of the firm. According to this method there are several functional areas that are connected to the capabilities of the organization: corporate functions (finance, strategy, cross-department cooperation etc.), management information (the way the information and IT systems are integrated with the decision-making), research and development (research and the speed and workflow of new product creation), operations (efficiency of the operations and their constant improvement), product design marketing (ability to create and communicate the design, promote and sustain the brand image, address changes in the market trends), sales and distribution (effective sales process, speed and quality of customer service) (Grant, 2010). The classification of organizational capabilities is presented in the Table 2.

Table 2. Functional Classification of Organizational Capabilities

Functional Area	Capability
Corporate Functions	Financial control Management development Strategic innovation Multidivisional coordination Acquisition management International management
Management Information	Comprehensive, integrated MIS network linked to managerial decision making
Research and Development	Research Innovative new product development Fast-cycle new product development
Operations	Efficiency in volume manufacturing Continuous improvements in operations Flexibility and speed of response
Product Design	Design capability Brand management Building reputation for quality Responsiveness to market trends
Sales and Distribution	Effective sales promotion and execution Efficiency and speed of order processing Speed of distribution Customer service

Source: Grant, 2010

This approach seems to be more suitable to the small and middle enterprises, where, quite often, it is complicated to distinguish primary and support activities as there are no separate departments or even employees – different functions are often assigned to the same people and thus cannot be clearly separated. In contrary, functional analysis gives more flexibility for identifying the capabilities of the company defining not the activities but the groups of functions

But not all the capabilities result in gaining a leading position on the market and significantly outperforming competitors. Only the combination of competences (“firm’s capacity to deploy resources for a desired end result” (Helfat, Lieberman, 2002)) that results in the creation of core competences allow performing significantly better, as they lead to acquiring sustainable competitive advantages (Wang, 2014).

According to the studies, the firms can maintain a long-term sustainable performance that would be better than the ones of their competitors by only securing a sustainable competitive advantage (Banker, Mashruwala, Tripathy, 2014). As M. Porter wrote, “the fundamental basis of above-average performance in the long run is sustainable competitive advantage. Without a sustainable advantage, above-average performance is usually a sign of harvesting” (Porter, 1985). By competitive advantage scholars imply the situation when firms use a value-creating strategy that is complicated for competitors to copy or imitate. The difficulty of replicating is the most important part of a competitive advantage, as it is considered as sustainable and relevant only if the current or potential competitors are failing to duplicate it (Ghemawat, 1995). This is why it is important for SMEs to turn to the strategic tools, as it allows outperforming the competitors.

2.3 Strategic Options Available to SMEs

There are two generic strategies that allow companies to develop sustainable competitive advantages. In his book M. Porter mentions the following approach towards developing a competitive advantage: “Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it. Value is what buyers are willing to pay for, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price” (Porter, 1985). Despite the time since the publication of this work, the approach articulated by the American scientist is still applicable and relevant to contemporary companies especially in the context of the disruptive influence of digital technologies on the companies and competition. (Kim, Nam, Stimpert, 2004).

The *cost-leadership strategy* relies on achieving a stronger position and bigger share of the market through adopting an approach that requires lower costs comparing to those of competitors. According to R.M. Grant (2016) cost-leadership for enterprises can be achieved through the following:

- **Economies of scale.** This source is mostly related to large companies that are able to increase the amount of production, thus decreasing the production cost per unit. Economies of scale can be applied to a wide range of enterprises producing goods or providing services. However, this source of cost-leadership is predominantly associated with large manufacturing companies.
- **Economies of learning.** The companies may achieve this effect through gaining knowledge and experience of completing the routine tasks in a most effective way.

- **Process technology and process design.** Sometimes companies may reduce their costs through business process re-engineering and management in order to build more efficient and fast operating systems.
- **Product Design.** Enterprises may optimize the creation of its products or simplify more sophisticated services in order to increase production and delivery speed and reduce costs related to the products' or services' complexity.
- **Capacity utilization.** Overutilization or underutilization of the companies' capacities (comparing to the full normal capacity) may lead to unfavorable consequences to the final products or services and may have a negative impact to the production. That is why proper capacity utilization strategy leads to a higher effectiveness of the enterprise and, as the result, lower costs of production.
- **Input Costs.** The companies may significantly reduce their input costs through localization of the production in the markets with lower input prices, acquiring suppliers with lower costs, suppression of labor unions' activity, getting bigger bargaining power to be able to negotiate better terms with the suppliers.
- **Residual efficiency.** Many companies face increased costs due to inefficient operational management. By tackling this issue, the enterprises are able significantly decrease the overall spendings.

Cost-leadership consists of several elements described above. In order to successfully implement cost-leadership strategy an enterprise has to meet several requirements: they need to be able to carry out a close control of their costs and revenue, measuring profits per customer and linking the performance of the staff and departments to key performance indicators.

Another strategic option available for companies is *differentiation*. According to M. Porter (1985), "in a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price". R.M. Grant (2016) elaborates on this definition and describes important feature of differentiation. He writes: "differentiation is not simply about offering different product features; it is about identifying and understanding every possible interaction between the firm and its customers and asking how these interactions can be enhanced or changed in order to deliver additional value to the customer". This approach not only describes the essence of differentiation but also pertains to the approach used to achieve a competitive advantage through providing customers with unique products or services. R.M. Grant argues that analysis of differentiation potential of a firm should be conducted from the points of view of supply (i.e. the enterprise) and demand (the clients).

Demand side analysis of the differentiation potential is primarily related to defining consuming and behavioral patterns of the customers. The better the firms understand what their customers want and how much they are willing to pay, the more precise and effective differentiation strategy they will be able to articulate and implement.

Implementation of differentiation strategy requires specific traits on behalf of the enterprise. It is for this reason that the supply side of the analysis is as important as that of demand. According to R.M. Grant (2016), effective differentiation has to meet several requirements in order to provide a firm with a sustainable competitive advantage:

- **Uniqueness.** The enterprises' products and services should be unique, on the whole and not just in particular details. The main sources of uniqueness available to companies include the following: product features, supporting services, marketing, technological advancements, usage of high-quality supplies and materials, excellent customer experience, high skilled staff, location, vertical integration.
- **Product Integrity.** Differentiated products of an enterprise should fit overall differentiation strategy and be consistent regarding overall brand perception. It can be measured by the degree to which the product possesses certain characteristics in internal and external dimensions. "Internal integrity refers to consistency between the function and structure of the product—e.g., the parts fit well, components match and work well together, layout achieves maximum space efficiency. External integrity is a measure of how well a product's function, structure, and semantics fit the customer's objectives, values, production system, lifestyle, use pattern, and self-identity" (Clark, Fujimoto, 1991). Lack of product integrity may damage not only the particular product or service but also have a significant impact on the overall success of the company's strategy.
- **Signaling and reputation.** In order to serve their purpose, unique qualities of a product or a service need to be widely known to the customers. Therefore, proper communication is essential when introducing the differentiation strategy. This is required especially for goods, the qualities of which can be observed and acknowledged only during and/or after consumption. In this case the enterprise should properly inform its customers about the products benefits, offering samples, strengthening brand perception, offering money-back guaranties, providing excellent purchasing experience etc. All these measures can motivate customers to buy a new product, because they persuade the customers that this good is one of a good quality.
- **Branding.** Brands are very important for companies that are trying to establish a strategy and gain a competitive advantage, particularly for the enterprises with

differentiation strategy. Developed branding and positioning of the company help to communicate the quality of goods and services to the clients. Brands can be perceived as valuable investments of business owners into the quality and customer service. That is why the management of a company has no interest in devaluing such a valuable investment as brand power. Moreover, known and popular brands are well perceived by customers as they help to reduce uncertainty and asymmetrical information, thus making the choice easier and lowering transactional costs.

Implementation of differentiation strategies requires creativity, innovation and good communication with customers. In addition, an important implication of this strategy for every company to consider is an increase of costs of production. Better quality, customer experience, advertising – all these require additional investments. For a company with limited capital available this strategy does not seem to be the best option.

Both strategies have their own requirements and elements (Table 3) and the choice of strategy should be based on the existing recourses and capabilities of a company.

It should be mentioned that M. Porter suggested the third generic strategy that uses similar principles of strategic positioning but differs in terms of the market choice. This strategy is called *Focus* and it implies choosing a special competitive segment in the market and targeting it separately. The competitive advantage forms naturally as a result of meeting the unusual demands of the customers in these competitive segments. These segments are usually poorly covered by major players in the market, which leads to an opportunity for the enterprises that are able to tailor their products or services to the customers' needs. This allows them to gain the major share in this sector.

The focus strategy can be grouped into two following categories: *cost focus* and *differentiation focus*. Cost focus is related to the customers' specific cost perceptions in the segment. On the contrary, differentiation focus on the product quality and features demands in this segment. Despite its obvious advantages of getting into a low competition market, this strategy also has its disadvantages: there is a risk for the segment of losing its attractiveness due to a decrease in demand or changes in consumption patterns. Moreover, there is a chance that bigger competitors may introduce their own solutions to gain a share in that target segment.

Table 3. Features of cost-leadership and differentiation strategies

	Key Strategy Elements	Organizational Requirements
Cost-leadership	<ul style="list-style-type: none"> • Scale-efficient plants • Maximizing labor productivity • Design for manufacture • Control of overheads • Process innovation • Outsourcing • Avoid marginal customer accounts 	<ul style="list-style-type: none"> • Access to capital • Division of labor with incentives linked to quantitative performance targets • Product design coordinated with manufacture • Tight cost controls • Process engineering skills • Benchmarking
Differentiation	Emphasis on branding, advertising, design, customer service, quality, and new product development	<ul style="list-style-type: none"> • Measuring profit per customer • Marketing abilities • Product engineering skills • Cross-functional coordination • Creativity • Research capability • Incentives linked to qualitative performance target

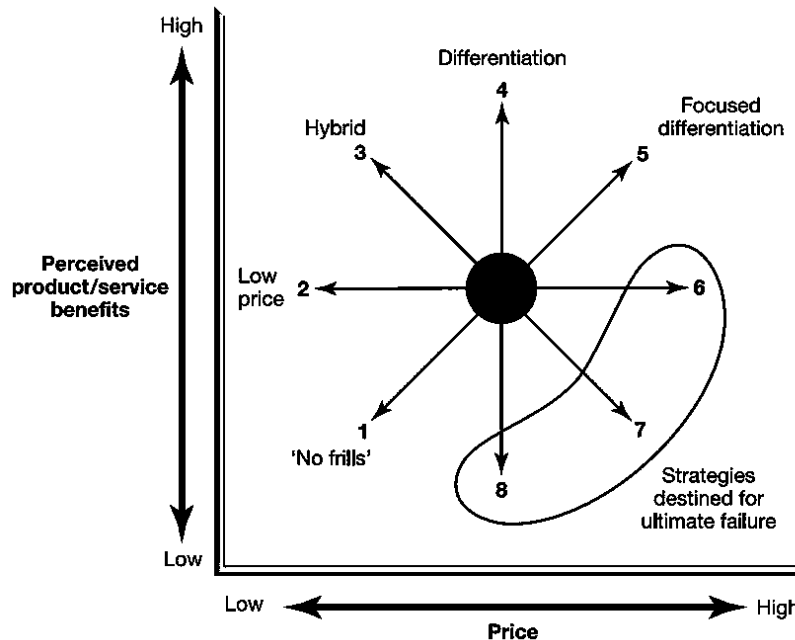
Source: Grant, 2016

M. Porter argued that differentiation and cost-leadership are mutually exclusive. He wrote: “The firm stuck in the middle is almost guaranteed low profitability. It either loses the high-volume customers who demand low prices or must bid away its profits to get this business from the low-cost firms. Yet it also loses high-margin business—the cream—to the firms who are focused on high-margin targets or have achieved differentiation overall. The firm that is stuck in the middle also probably suffers from a blurred corporate culture and a conflicting set of organizational arrangements and motivation system.” (Porter, 1980) According to him, a company cannot get a sustainable competitive advantage through combination of two strategies.

In contrast, R.M. Grant states that these two strategies can coexist, and that it is for firms to decide which approach to choose. He writes: “A cost-leadership strategy typically implies limited-feature, standardized offerings, but this does not necessarily imply that the product or service is an undifferentiated commodity. Southwest Airlines and AirAsia are budget airlines with a no-frills

offering yet have clear market positions with unique brand images. The VW Beetle shows that a utilitarian, mass-market product can achieve cult status.” (Grant, 2016).

Graph 2. Strategic clock



Source: Johnson, Scholes, Whittington, 2008

The idea of generic strategy combination was developed by several scholars. Linton and Kask (2017) identified the connection between hybrid strategy and high performance. Moreover, the results of their study define differentiation as an important factor that influence firms’ performance. Leitner and Gldenbergl (2010) state that pure generic strategies are no better than a hybrid one and, in some cases, enterprises with a hybrid strategy may outperform their competitors. The results showed that combination of strategic options works effectively not only for large firms but also for SMEs: “We assume that the organizational flexibility and customer intimacy of smaller firms support the successful realization of such a strategy.” (Leitner, Gldenbergl, 2010)

Developing the ideas of Porter and Grant, Cliff Bowman and Richard D’Aventi offer “market-facing” approach to generic competitive strategies. This approach relies on the idea of providing the customers with what they are willing to pay for, i.e. their value-price perception (Johnson, Scholes, Whittington, 2008). In order to define the options Bowman and D’Aventi introduced so-called Strategic clock (Graph 2). The clock graphic of strategic options has eight directions. Each of these eight positions consider the level of perceived value on vertical line and price that the customers are willing to pay on the horizontal line.

Table 4. Strategic clock positions

Strategic options	Needs/risks
1. 'No frills'	Likely to be segment specific
2. Low Price	Risk of price war and low margins; need to be cost leader
3. Hybrid	Low cost base and reinvestment in low price and differentiation
4. Differentiation	Without price premium – perceived added value by user yielding market share benefits With price premium – perceived added value sufficient to bear price premium
5. Focused differentiation	Perceived added value to a particular segment, warranting price premium
6. Increased price /standard value	Higher margins if competitors do not follow; risk of losing market share
7. Increased price /low value	Only feasible in monopoly situation
8. Low value /standard price	Loss of market share

Source: Johnson, Scholes, Whittington, 2008

The strategic options of the clock (Table 4) start from 'no frills' (this approach can be considered as cost focus) and low-price options, that are considered as price-based strategies. Then they are followed by hybrid (combination of low price and differentiation), differentiation and focused differentiation that can be classified into one 'differentiation options' group.

Moreover, the strategic clock concept points out the approaches that tend to have low success rate, so-called *failure strategies*: increased price with standard value offered, increased price with low value offered and low value with standard price. To succeed, the first two options require specific situations in the market (low competition or even a monopoly) that makes them literally impossible in the competitive market. The third one leads to negative consequences in every scenario.

'Market-facing' approach to competitive strategies seems to be the best option in terms of the analysis of SMEs' business strategies as it provides a flexible framework that relies on basic strategic concepts but gives a broader perspective on the choice and implementation of each particular strategy.

It allows using hybrid strategies, the option that is rejected by the approach of M. Porter. Moreover, 'market-facing' also describes failure strategies. It may help to better understand SMEs' activities in Russia.

At the same time, even when adopting costs control measures, some firms continue to carry out proactive measures and use differentiation strategy methods (innovation and product customization) in order to get a bigger share of the market. That results in higher performance comparing to the other companies. This may show the positive effect of hybrid strategy on companies' results.

The strategic option that stands aside 'cost-leadership-differentiation' framework is the *blue ocean* strategy. This option deals primarily with offering unique buyer value with significantly reducing its own costs. This allows attracting new customers through offering innovative and unique products or services that give the enterprise an opportunity to create a new market. This approach leads to operating in the environment with little to no competition. Despite having its obvious advantages for the enterprises, in order to be sustainable, the blue ocean strategy requires the ability to increase sales with stable/higher prices and stable/low costs (Christodoulou, Langley, 2019). This may become a challenge for SMEs that may not have sufficient resources and capabilities to achieve such a result.

2.4 Strategic Choice of Small and Middle Enterprises: Empirical Studies

Studies conducted by numerous researchers have demonstrated that only small percentage of SMEs carry out strategic planning for their organizations. (Robinson, Pearce, 1984; Sexton, Auken, 1985; Berman, Gordon, Sussman, 1997; Orser, Hogarth-Scott, Riding, 2000; Robinson, Pearce, 2001; Beaver 2003; Cheng, Kadir, Bohari, 2014). Moreover, the existence of a strategic plan does not guarantee its implementation by the enterprise's management. In the study conducted in 2017, researchers found that only 17% of SMEs incorporate their strategies into their daily activities and approximately 25% do that partially. That means that they may only implement parts of their strategies but not in a systematic way (even without having a written strategic plan), therefore it cannot be considered as complete strategy implementation (Majama, Magang, 2017).

But what are the reasons of such tendency? Some researchers argue that this is connected to the personalities and capabilities of the business-owners and/or top-management. Some studies confirm a strong correlation between the mentality of owners and/or managers and the financial performance of SMEs (Wijewardena, Nanayakkara, Zoysa, 2008). Considering that these people

control and define the growth path of the company, analyze the environment and make the decisions, it is not surprising that this factor attracts significant attention when it comes to the strategy definition and implementation in SMEs. The study conducted by Wang C., Walker E. and Redmond J. showed that SMEs with growth-oriented owners and/or managers, that clearly set the goals of the future and evaluate the resources to achieve these goals, are more likely to use strategic tools to set a path for further actions of the company. At the same time, there are managers that are keen on maintaining the status quo, earn the profits from the companies' operations on this point of stability and do not plan further growth. In this case, the probability of using the strategic tools is much lower (Wang, Walker, Redmond, 2007). Similar results were achieved by the researchers from Indonesia: the study of 52 owners/managers of SMEs in the Indonesian district of Malang found that the individual factors of have both a direct and indirect impact on the growth of the enterprise. By individual factors the researchers imply the business experience and personal motivation to manage and develop the company. (Sarwoko, Frisdiantara, 2016)

But, maybe, there are other reasons for this low percentage of strategic planning and implementation among SMEs? Can it be connected to the degree of relevance of the strategies described to the nature and particularities of SMEs and their business processes?

In terms of applicability of the strategic options to the SMEs, there is a study that confirms the effectiveness of the cost-leadership and differentiation strategies for SMEs (Chandler, Broberg, Allison, 2014). At the same time, it does not compare the results of those who operate with and without clear strategic vision. This gap was filled by other researchers who came up with the conclusions that contradict the theory. In a study conducted in 2010 by Leitner and Guldenberg, the authors have tested several hypotheses listed in Table 5. These hypotheses were related to the influence of strategic behavior on the companies' performance. The study was conducted in Austria in 1992 and 2002 when the same sample of enterprises was questioned about their strategies.

The results showed no evidence that differentiation and cost-leadership (having equally positive impact on SMEs) lead to a better performance than the absence of strategy. At the same time, combination strategy (which is called Hybrid within Strategic clock framework) proved to be better than the absence of strategy (Leitner, Guldenberg, 2010). Although this study has certain limitations pointed out by its authors (the impact of external factors, country specifics were not taken into consideration, as well as the resources and competences that the companies used to build their strategies), it shows that the strategies defined by the scholars are not necessarily applicable to SMEs and may or may not lead to a better performance.

The study of Indian SMEs showed that this type of companies may achieve higher performance implementing cost-leadership strategy using data and information analysis. (Kharub, Mor, Sharma, 2019).

Table 5. Results of the empirical study of Austrian SMEs

Hypothesis	Supported/Rejected
H1a: With respect to profitability and growth, SMEs pursuing a cost-efficiency or differentiation strategy perform equally well.	Supported
H1b: SMEs pursuing a cost-efficiency or differentiation strategy will achieve higher financial performance and firm growth than SMEs with no strategy.	Rejected
H2a: SMEs pursuing a combination strategy will achieve equal or higher financial performance and firm growth than SMEs following a cost efficiency or a differentiation strategy.	Supported
H2b: SMEs pursuing a combination strategy will achieve higher financial performance and firm growth than SMEs with no strategy.	Supported
H3a: SMEs that change their strategy have lower financial performance and growth than SMEs that persistently follow a cost-efficiency, differentiation or combination strategy.	Rejected
H3b: SMEs that change their strategy have higher financial performance and growth than SMEs with no strategy.	Supported

Source: Leitner, Guldenberg, 2010

These results were further confirmed by the study conducted in 2013 which was aimed at comparing the performance of the SMEs in the United States, Peru and Argentina through the prism of their strategic clarity. The researchers conducted a survey of 129 SMEs in Argentina, 113 in Peru and 167 in the US. As expected, the companies with clear strategic plan (i.e. those where managers or owners had a clear intention to and actually were able to clearly define and implement its strategy) performed well. At the same time, surprisingly, the companies that had low level of strategic certainty

performed equally well – the result that supports previous research and raise the questions about the applicability of the theoretical concepts to the reality of business operations of SMEs (Parnell, 2013).

Moreover, this study went even further in demonstrating that there is one group of enterprises that performed worse than those mentioned above. The companies that did not demonstrate high or low strategic clarity (in the study they are referred as moderate) performed poorly. Interestingly enough, these results were true for the enterprises in all countries of study: The United States, Peru and Argentina, which can be interpreted as the relevance of these results not only for the developed countries but also for developing countries (Parnell, 2013). More recent study indicates positive influence of high strategic clarity and high degree of strategy implementation on SMEs' growth. (Bellamy, Amoo, Mervyn, Hiddlestone-Mumford, 2019)

At the same time, the results of a study conducted in 2012 in the UK largely contradicted the conclusion of the ones described above. After surveying 460 companies in Britain, researchers determined that the companies with differentiation strategy perform better than the competitors (in terms of profitability) when the resources are allocated properly. The scholars pointed out that better performance is achieved, when a company pursues the differentiation strategy based on high level of customer service and combines it with developing human resources in order to acquire more professional and developed employees. (Georgiadis, Pitelis, 2012) This study not only connects strategy and high performance of SMEs, but also states the importance of human resources in effective strategy implementation and execution.

High positive impact of differentiation strategy on SMEs' success was also observed after investigating strategic approaches of Indonesian SMEs (Giantari, Jatra, 2019). The study of 100 SMEs in Nairobi, Kenya demonstrated positive impact of competitive strategies on the companies' performance. Interestingly, the impact of cost-leadership and differentiation strategies on the SMEs' results was higher than the one of hybrid strategy (Gure, Karugu, 2018).

The contradictory results described may be an explanation to the reluctance to adopt strategic approached demonstrated by many of the business owners.

Although the impact of the strategic certainty may be similar across the counties with different level of economic development, the strategic choice itself seems to differ in accordance with the current market conditions in different parts of the world.

A recent study of the strategic choice of SMEs in the United States and China demonstrated that the different conditions in these countries influence the strategic choices that SMEs tend to make. The enterprises in Mainland China chose cost-leadership strategy due to the favorable costs of labor (that are still relatively low compared to the ones in the developed economies) and high level of government involvement in private sector, the factors that make differentiation approach more difficult to pursue for the companies with relatively low amount of resources available. This approach

may change if a company manages to secure its position in the market, develop its relationship with the state agencies (or establish the connections with state-owned companies) and acquire necessary resources, helping them to reduce the level of the market environment uncertainty for them and opening a way to move towards bigger differentiation.

Although this process is slowly happening among the SMEs in the country, it is still difficult for most of the enterprises to pursue clear differentiation strategy. In contrary, the SMEs in the United States have significantly more resources available and face less market uncertainty. This opens a bigger range of strategic choices to the enterprises (Parnell, Long, Lester, 2015). Although, according to the authors of the study, these results should not be generalized on a global scale without similar researches in other countries, these findings should be definitely taken into consideration while analyzing the behavior of SMEs in Russia.

The link between strategizing and resources of SMEs was also supported by the results of the study of British SMEs (Bellamy, Amoo, Mervyn, Hiddlestone-Mumford, 2019). This phenomenon, which is similar to what was observed among Chinese SMEs, may provide a better understanding of the reasons and motivations behind strategic choice.

The study conducted among Portuguese SMEs have shown that companies tend to pursue a hybrid strategy, trying to adapt to local turbulent environment and changing customer preferences (Gomes, Yasin, Lisboa, 2009). These results were also supported by the study of Kenyan SMEs in food and beverage industry published in 2014 (Mutunga, Minja, 2014). The data received demonstrated similar the ones of SMEs in Portugal patterns: most of the firms (56,2 percent) combine the approaches of cost-leadership and differentiation (hybrid strategy), while only 25 percent pursue cost-leadership strategy and 18,8 percent chose differentiation strategy. Just like in Portugal, the strategic choice made by Kenyan SMEs is related to the market uncertainty and can be considered as an attempt of the local SMEs to hedge the risks related to the unpredictability of the environment (Mutunga, Minja, 2014). Similar results were obtained after questioning 130 SMEs in Croatia and Macedonia. The hybrid strategy was identified as the most popular to be implemented by the companies. Cost-leadership and differentiation were observed less often. (Rexhepi, Srhoj, 2018).

All in all, the above-mentioned empirical studies on the strategic behavior of SMEs lead to the following partially contradictory conclusions:

- These types of the enterprises tend to avoid choosing any strategic approach.
- Even if SMEs decide to pursue certain strategy, its actual implementation and integration into the business processes and changes in its operations do not seem to be systemic.

- That comes from the personal perceptions of the owners and/or business management. Studies also demonstrate that owners that are more oriented on the growth of the business are more likely to pursue a certain strategy.
- At the same time, the studies related to the impact of the strategy implementation on the SMEs' performance demonstrate contradictory results.
- Some studies do not confirm the theoretical statement that strategic approach leads to better performance: the companies with and without strategies analyzed in the research papers demonstrated equally well results.
- The only group with poor performance includes companies with medium level of strategic clarity, where a strategy is chosen but not completely pursued.

In terms of the SMEs' strategic choice itself, organizations tend to choose strategies in accordance with their own available resources, the market conditions and the level of the uncertainty in the market. That is why, in some markets SMEs pursue the cost-leadership strategy, trying to secure their place in the competitive environment, in the others – companies follow hybrid strategies trying to remain flexible and prepare the organization to change in the face of external factors. Some companies in stable, developed markets enjoy sufficient amount of resources and high level of certainty that is why they have more strategic flexibility and can choose from three strategic options according to their own goals.

2.5 Previous Studies of Strategic Behavior of Russian SMEs

As described in the previous chapter, the country and market specific factors are essential while analyzing the SMEs' behavior and strategic planning. That is why it is still questionable whether the conclusions made by the scholars relying on data gathered in the other countries is applicable the reality of the business operations in Russia.

Unfortunately, the topic of strategic choice of the SMEs is understudied and does not extensively cover the applicability of these strategies in Russian market. In contrary to the increasing number of global studies on entrepreneurship and SMEs, the question of Russian enterprises, their decision-making and its connection to the companies' performance are still overlooked by the majority of the scholars (Morris, Shirokova, Shatalov, 2013).

However, some recent studies conducted among Russian SMEs confirm positive impact of the proactive strategic behavior for the small and middle enterprises. The strategies aimed at improving efficiency of the company as well as at gaining new core competences lead to both the stable performance of the company and new competitive advantages in the long run. Moreover, the

combination of this approaches may also reveal new opportunities for the firm, especially in the turbulent environment. (Shirokova, Ivvonen, 2016)

It is still unclear to what extent the enterprises in Russia employ the strategies described in the previous chapters and how do they go about choosing the type of the strategy to follow. The subject related to the way Russian SMEs analyze their resources, capabilities and competitive advantages is not covered properly. Moreover, studies do not include the strategic behavior of Russian SMEs within the framework of three generic business strategies: how and why the companies tend to choose or not to choose certain strategies and how it is connected to their resources and competences. For example, a recent study of Russian SMEs' performance and resources management only within the framework of strategic orientations (entrepreneurial and market orientations) without analyzing their strategies from M. Porter's perspective. Moreover, this study is mainly focused on investigating the impact of external environment (economic crisis) on the strategic orientations of these SMEs'. (Beliaeva, Shirokova, Wales, Gafforova, 2018). More information about previous academic papers written about Russian SMEs' strategies can be found in Table 6.

Table 6. Academic papers regarding Russian SMEs' strategies analysis

Academic papers	Main focus
<ul style="list-style-type: none"> Shirokova, G., Vega, G., & Sokolova, L. (2013). Performance of Russian SMEs: Exploration, exploitation and strategic entrepreneurship. 	<ul style="list-style-type: none"> Explores the topic within the exploration-exploitation strategic framework Not industry specific
<ul style="list-style-type: none"> Morris, M. H., Shirokova, G., & Shatalov, A. (2013). The business model and firm performance: the case of Russian food service ventures. 	<ul style="list-style-type: none"> Business-model evaluation – business strategy is not covered
<ul style="list-style-type: none"> Shirokova, G., & Ivvonen, L. (2016). Performance of Russian SMEs during the economic crisis: The role of strategic entrepreneurship. 	<ul style="list-style-type: none"> Explores the topic within the exploration-exploitation strategic framework Not industry specific Focuses on the impact of external environment (economic crisis)
<ul style="list-style-type: none"> Beliaeva, T., Shirokova, G., Wales, W., & Gafforova, E. (2018). Benefiting from economic crisis? Strategic orientation effects, trade-offs, and configurations with resource availability on SME performance. 	<ul style="list-style-type: none"> Explores the topic from strategic orientations perspective Not industry specific Focuses on the impact of external environment (economic crisis)

Source: compiled by the author

All in all, the analysis of the empirical studies related to the topic of Russian SMEs' strategic behavior helped to identify the research gaps regarding this topic. Although, there are some results confirming the utility of the strategic behavior for the organizations in Russia, they do not fully cover that within the framework of generic business strategies, nor do they analyze the connection between entrepreneurs' perceptions and motivations, companies' resources and competences, the existing and possible sustainable competitive advantages and their choice of a strategic option. This gap creates opportunities for further research as the investigation of these topics will help to better understand the strategic behavior of SMEs and identify the patterns that lead to better performance.

2.6 Conclusion

According to the theoretical concepts reviewed in this part, in order to achieve higher performance and greater flexibility with regards to the external shocks SMEs need to articulate and implement certain strategies. Strategic choice is based on the proper evaluation and management of the company's resources, that create certain capabilities. The capabilities that are harder to replicate and that help to compete against the other players on the market are named competitive advantages. The strategy of the firm is aimed at developing and maintaining these advantages. Three types of the business strategies applicable to the SMEs can be distinguished: *cost-leadership* (benefiting from low cost and effective optimization of the processes), *differentiation* (creation of the additional value for customers for a similar or higher price) and *hybrid* (combination of certain traits of cost-leadership and differentiation). Moreover, blue ocean strategy is also available for SMEs.

However, the empirical studies of SMEs' strategical behavior do not provide a clear answer to whether adopting a strategy helps to increase performance. Different studies come to different conclusions which are closely linked to country and market specifics. At the same time, scientific papers clearly indicate that most of SMEs do not employ any strategy, which is the result of the managers'/owners' lack of motivation, experience and competences to do that. The companies that do choose certain strategy demonstrate different patterns across countries. In less developed markets companies tend to compete with lower amount of resources and environmental certainty (which clearly influences the strategic choice) and demonstrate similar strategic behavior patterns. On the other hand, the SMEs operating in the developed economies a larger variety of strategic choice. This proves the importance of country-based analysis of the SMEs' strategies.

Similar research regarding the Russian SMEs' and their strategic choice did not provide with enough information to make clear conclusions. It is still unclear how and why SMEs in Russia strategize, how they manage their resources and approach competence and capability development.

This is the gap in the studies that was identified as the result of the literature review and is to be addressed in the thesis.

All in all, the literature review identified certain propositions regarding SMEs' strategic behavior based on theoretical background evaluation and previous empirical studies results. These are the followings:

1. SMEs have three strategic options to choose: cost-leadership, differentiation and hybrid;
2. These strategies may help SMEs acquire sustainable competitive advantages in order to outperform the competitors and become more stable against shocks in external environment;
3. The overwhelming majority of SMEs do not pursue any strategy. It is a result of lack of motivation, experience and competences of managers and organizations themselves;
4. Even if the companies choose certain strategy, it will, most probably, not be fully implemented and will not be strictly followed;
5. The owners that are concentrated on achieving high growth are more likely to pursue certain strategy;
6. The perception of environment uncertainty and resources available may influence the strategic choice of the companies;
7. There is no proven connection between strategies' implementation and the SMEs' performance –previous empirical studies yielded controversial and often contradictory results;
8. Country-related factors may influence the results of the study of SMEs' strategic behavior;
9. Russian SMEs demonstrate positive results in terms of the proactive strategies during turbulent times, although the motivation behind strategy adoption as well as the impact of particular strategies remain unclear. The way companies manage the resources and competences is also understudied.

3. Strategic Choice of Russian SMEs: Empirical Evidence from Coffee Industry

3.1 Research Design

The investigation of the topic of SMEs' strategy in Russia requires achieving a deeper understanding of the topic, by delving into the particularities of the strategic behavior of the organizations and the factors that influence their choice. Considering the fact that this sphere remains understudied, this research will explore the enterprises' motivations and reasons for actions previously not fully studied by the scholars in Russia.

Because of the characteristics described above, the research is designed as **exploratory**. The scholars define exploratory analysis as a method that helps to understand “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Robson, 2002). Another definition builds up on the previous one: exploratory analysis is “the mode of analysis concerned with discovery, exploration, and empirically detecting phenomena in data”. (Jebb, Parrigon, Woo, 2017). As it can be seen, this type of research design is well suited to the nature of this thesis: through the data to define and understand the way the small and middle enterprises choose their strategy and it influence their operations and results.

3.2 Research Strategy

The goal and the main questions of this thesis, as well as its design help to determine the strategy of further research. The approach chosen is **case study**, which can be defined as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence” (Robson, 2002). Case study fits the purpose of the research as it “has considerable ability to generate answers to the question ‘why?’ as well as the ‘what?’ and ‘how?’ questions” (Saunders, Lewis, Thornhill, 2009). This approach confirmed by Mr. Yin (2009), who highlighted the importance of the research questions and their connection to the strategy of the research (for case study it is “how?” and “why?”). Moreover, Mr. Yin (2009) states that case study fits the research that is aimed at investigating contemporary events with little or no control over it. Case study suits the needs of the research that requires the investigation of both the context and the phenomenon itself. It is important because the conclusions and interpretation of findings cannot be made correctly without careful consideration of the context. This thesis aims at understanding the processes and the reasoning behind strategic choice

of SMEs of the coffee house industry without the ability to influence the respondents, that is why it is crucial to have all abovementioned elements to be included into the research strategy. Because of that, case study seems to be the most optimal research strategy for achieving the objectives of the thesis.

Researchers commonly classify case studies in four groups that can be classified into two dimensions depending on a) the number of cases and b) the unit of analysis, namely: single case – multiple case; holistic case – embedded case. In order to succeed in completing the objective of the study, a **holistic multiple case study strategy** was used, as it will allow to track whether the results of one case correspond to the results of other cases, leading to the higher level of generalizability of the findings. Considering the fact that the cases concerned are supposed to be analyzed as the whole organizations, this multiple case study is holistic.

3.3 Industry of Research

In order to increase the efficiency, higher comparability and further generalizability of this research, the study should focus on one industry of SMEs. This will provide with relatively similar companies' profiles and bring into sharp focus the differences in the strategic behavior of the organizations under study.

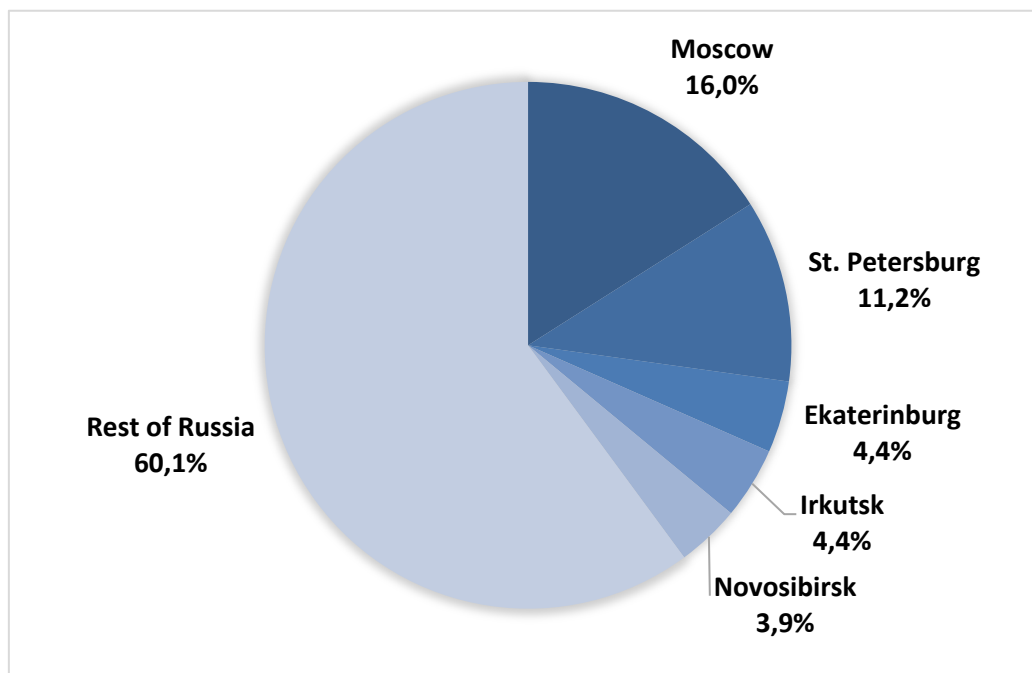
The industry defined for the further research plays an important role: the size of the market, the level of competition and the level of customizability of the product will inevitably influence the actions that the owners and/or the managers undertake to create sustainable competitive advantages and reach their short and long-term objectives.

Moreover, the costs of establishment, operation and production should also be considered, as they can potentially influence the readiness to pursue certain strategic options (as it was identified in the first chapter of the thesis). All in all, it seems to be reasonable to focus on the industry with a fairly high number of enterprises, significant growth (which demonstrate sufficient demand and market capacity), relatively low costs of establishment and operation, and a main product or service that is relatively the same across the industry in different geographical areas – the factor that will help to better understand business strategy approaches and generalize and project the findings from several cases on the whole industry.

Considering the abovementioned parameters, SMEs operating in the coffeeshop industry in Russia became the focus of this research. According to recent reports, this sphere fits the criteria identified above.

Graph 3. Geographical Distribution of Coffee Houses Across Russia

(% of total number of coffee houses)



Source: PIR-Coffee, 2018

The coffee house industry has relatively similar product line – though some differentiation and changes in product quality are possible, they will not dramatically change the menu of the enterprise. This is confirmed by customers’ demand, who remain quite conservative regarding coffee drinks: the classic and double cappuccino account for the biggest share of sales for coffee houses – 73,8 percent of total sales (PIR-Coffee, 2018). In terms of establishment and operating costs, as well as revenue structure, this is also quite homogeneous industry, according to the data retrieved from PIR-Coffee report (2018):

- 72 percent of coffee houses in Russia have its floor area within the range of 10 to 100m²square meters with average size of 56 m².
- Almost a third of all coffee houses are located either in Moscow or Saint Petersburg (for the whole geographic distribution see Graph 3). At the same time, these cities have high level of market saturation and competition: in Moscow 16 percent of all coffee houses in Russia accrue to 8,6 percent of total population of Russia and in Saint Petersburg 11,2 percent of coffee shops accrue to 3,7 per cent of population (Rosstat, 2020);

- 70 percent of the enterprises pay their baristas an hourly wage within the range of 100 to 199 rubles with the national average of 136 rubles per hour;
- 62,7 percent of the companies choose coffee machines from two main companies with similar price tags.
- Prices for the drinks are also similar – 77 percent of the coffee houses sell espresso within the price range of 51 to 119 rubles (average - 91 rubles) and 65 percent sell cappuccino for the price between 120 rubles and 199 rubles (with average of 136 rubles).
- 64 percent of the coffee houses have the average check between 200 and 499 rubles with countrywide average of 332 rubles. Even in Moscow, where the prices tend to be higher, the average check is not that far from that number – 366 rubles.
- 65,7 percent of the enterprises sell from 6 to 199 cups per day with average of 190 cups per day.

The relatively low average costs of opening a coffee house were confirmed by the founder of “Pravda Coffee” company and the head of “Shokoladnitsa” company who believe that average price of launching coffee shop is around 0,5 – 1,5 million rubles, depending on the amount of refurbishment of premises needed. (Kommersant, 2020)

Another criterion, that the industry fits is the level of competition and its growth. The data of 2019 demonstrate significant growth of the number of coffee houses in Russian cities with the population over 1 million people: the quantity of the enterprises rose by 30% and reached 6,8 thousands of coffee shops. The growth rate is higher than, for example, pizza restaurants (21 percent growth), sushi bars (17 percent growth), canteens (15 percent growth), fast food places (9 percent growth). Now, the number of coffee houses is more than the number of bars (5,8 thousand establishments) and comes closer to the restaurants with complete services (6,9 thousand establishments), large-format cafes (12,2 thousand establishments) and fast-food restaurants (15,2 thousand establishments) (Kommersant, 2020). The trend described can be attributed not only to relatively low costs of starting and operating a business in this industry, but also increasing demand for this kind of places, as well as understandable business model to operate for beginner entrepreneurs.

All in all, the coffee house industry was chosen for the research as it has the characteristics to facilitate the strategy behavior identification, the analysis of the research results and generalization of the findings and conclusions.

3.4 Data Collection Process

Considering the research strategy chosen, it seems to be difficult to use probability sampling because the research questions and objectives, as well as case study strategy itself demand a deeper approach towards determining SMEs' strategic behavior. That is why **non-random sampling** was chosen for the data collection for this research.

In terms of the **size of the sample**, there is approach that implies collecting new data till complete data saturation, meaning, when marginal contribution of every new case to the clarification of findings and conclusions approach zero (Saunders, Lewis, Thornhill, 2009). Although, this approach seems to be the best one in terms of reliability of findings, it is not the most efficient regarding time and resource constraints. That is why it is important to set a lower limit for the number of cases needed to achieve acceptable results of the study. According to Guest, Bunce and Johnson (2006), 12 in-depth interviews should be enough to draw conclusions regarding relatively homogeneous groups. As mentioned in the previous section, coffee house industry seems to be quite homogeneous. That is why, it is possible to use the suggested approach and aim at, at least, 12 interviews to be conducted during this research.

When the appropriate sample size is defined, it is important to correctly choose the suitable **sampling technique**. There are several approaches towards non-random sampling: quota, purposive, snowball, self-selection, convenience (Saunders, Lewis, Thornhill, 2009). Within the scope of this exploratory research the author decided to use a combination of two approaches: **snowball and self-selection**. The first approach is about contacting the first several cases and then being forwarded by referral to others. Although, described as the approach that can lead to the very homogeneous sample (because the first cases can forward to someone similar in nature) (Saunders, Lewis, Thornhill, 2009), it does not seem like a big issue considering the characteristics of the industry described above. The second approach used to reach the number of necessary cases in accordance with the sample size is self-selection. It involves publishing the call for participation through media (in the case of this thesis social media platforms were used) in order to identify willing participants.

As for the **sampling criteria**, it was decided to concentrate on the coffee house companies mainly from Moscow and Saint Petersburg as they are the main industry centers of the country. The companies had to match SME definition criteria used by the Russian officials, i.e. they cannot exceed 250 employees and/or two billion rubles of revenue. Every company was asked to confirm that they match these parameters. Also, these coffee houses had to be not from big and established franchises so that they have full control over their tangible, intangible and human resources and do not experience the limitations often imposed by big coffee chains.

Moreover, it was necessary to find organizations, whose owners or top managers would be willing to participate in the interviews. Being responsible for all decision-making in the company, these people could provide with the deeper insights regarding strategic behavior of their organizations than minor staff members. Comparing to top management, the ordinary employees do not always have full access to the information regarding long-term plans, resource management, capabilities development that is why their understanding of the companies' strategy may be incomplete. Also, the literature review identified that the factor of personalities of SMEs' leadership may influence the strategic behavior. Because of that, it is also important to talk to the executives and not average employees.

The primary data was collected using **interviews**, as it matches the research strategy and allowed to gain sufficient depth of the research needed to reach the objective determined. Scholars distinguish three types of interview: structured, semi-structures and unstructured interviews (Saunders, Lewis, Thornhill, 2009). Although, the unstructured interviews, whereby interviews without defined list of questions are conducted, might provide higher degree of understanding into the processes inside the company, this approach is not ideal for the purpose of this study, as it will make it more difficult to analyze and compare the cases. Furthermore, it will be constrained by the time and resource limitations.

In order to gather the **qualitative** data required, **semi-structured interviews** were chosen. This type of interview implies having a list of themes and topics to discuss as well as some questions to be asked but allows for more freedom of conversation. This will allow to make the points of interviewees clearer and get a better perspective on how the enterprises choose their strategic approach. Also, personal interviews helped to avoid any misunderstandings on both sides of the interview increasing the quality of the data obtained. It was decided not to use the structured interviews because they provide with quantitative results that suit more explanatory or descriptive research (Saunders, Lewis, Thornhill, 2009).

The interviews were designed in accordance with the objective of this thesis as well as the results of the literature review. They included the questions about several topics that are linked to the main questions of the research. The following topics for questions and further discussion were included into the initial design of the interviews conducted: strategic planning of the company (perception and actual implementation), companies' resources and competences (how they are used and evaluated), competitive advantages of the companies (perception of the current situation and the way they have changed over time) and control questions (the sizes of the companies and their performance).

Several challenges arose while preparing and conducting the interviews. First of all, the business owners and/or the companies' managers were not always ready to participate in the long

face-to-face interviews lasting around 45 minutes. In order to address this issue, it was necessary to establish better personal rapport with the potential interviewees in order to achieve compromise and find the date and time to conduct the interviews. Sometimes this meant that the interviews were conducted over the phone instead of in person.

Secondly, some interview participants were reluctant to share the information regarding the companies' strategy, as they were worried about possible information leaks to their competitors. Establishing higher level of mutual understanding and clarifying the purpose of the research the entrepreneurs agreed to talk about the topic. At the same time, it was important to share the motivation behind the research without disclosing the theoretical background before the interview in the aim of maintaining objectivity (avoid changes in their strategy perceptions to fit theoretical framework and present their organization in a better way, thus influencing the data quality of the study).

Finally, one of the biggest challenges addressed during data gathering was the unwillingness of the SMEs' owners and managers to talk about financial results of their companies in quantitative means (the determining factor, that would help establish a clearer connection between strategic behavior and the company's performance). This can be attributed to the fact that significant number of SMEs operate "in the zone of gray and nonobservable operations" (Morris, Shirokova, Shatalov, 2013). The entrepreneurs do not want to disclose their real financial flows out of fear of this data being published on the online sources. In order to tackle this issue it was decided to use more neutral wording of the question related to performance and avoid asking about exact figures and instead focus on determining positive and negative trends in the financial performance, the perception of the owners regarding the connection between their actions and the financial results, and the changes in the size of the company. Considering the resource constraints, this compromise approach seems to be the most optimal one.

The interviews conducted and the notes taken were transcribed so as to be analyzed and compared as cases of the study, which would allow them to identify similar patterns and discover differences related to the research questions.

After the interview with the enterprises were conducted and the data collected was analyzed, using **thematic analysis**, which is "method for identifying, analyzing and reporting patterns (themes)" (Braun, Clarke, 2006). This method proved to be effective with the results of semi-structured interviews. (Clarke, Braun, Weate, 2016). The thematic analysis helped to identify similarities of ideas and thoughts expressed by the interviewees. Moreover, the missing points regarding the companies themselves and the market they operate in were identified. This was done in order to pinpoint necessary secondary data to be found during further analysis. According to Saunders, Lewis, Thornhill (2009), in order to achieve better results, sometimes it is necessary to use multiple sources of data and information, thus achieving their triangulation. The secondary data

collected during research included documentary data (both written and non-written materials regarding SMEs and the coffee house industry). Sources included: industry reports, the companies' websites and social media, customer rating aggregators.

3.5 Case Companies Description

As the result of the research conducted, 14 interviews with the owners and top managers were organized. The number of cases is sufficient and exceeds the target number of cases identified in in the section 3.5.

The overview of general characteristics of the companies have been systematized in Table 7. All the companies analyzed fit the requirements of the definition of SMEs, most of them falling into the categories of micro or small enterprises.

The absence of medium enterprises can be attributed to the lack of opportunities for high growth for non-franchise coffee houses and small chains. At the same time, established and well-known franchise chains tend to be bigger than medium enterprise (according to the identification of Russian Government). The overwhelming majority of companies interviewed are located in Moscow, which fits into an overall trend of high concentration of coffee houses in the Russian capital (Graph 3). All of the companies were founded in 2014 or later. Moreover, 6 of the companies were founded within the last 2 years which also confirms the data regarding the dramatic rise of the number of coffee houses around Russia in that period. This number can also explain absence of medium sized enterprises in the sample – most of the current coffee houses are relatively young and did not manage to grow to that size.

Table 7. List of the Case Companies Interviewed

#	Name	City	Number of employees	Founded	Number of coffee houses
1	Need Coffee	Moscow	<16	2020	1
2	Waff&Love	Moscow, St. Petersburg	16 - 100	2015	2
3	Lafayette Coffee	Moscow	16 - 100	2017	3
4	Coffee Addis	St. Petersburg	<16	2014	1
5	DoubleFlip	Moscow	<16	2018	2
6	Point Coffee and Food	Moscow	16 - 100	2015	1

7	Maybe Coffee?	Moscow	<16	2016	2
8	Coffee & Cake	Moscow	<16	2019	1
9	Forty Niners Coffee	Moscow	<16	2019	1
10	Duo	Yekaterinburg	16 - 100	2017	2
11	Petrovskaya Coffehouse	Moscow	<16	2017	1
12	Antipa	Moscow	<16	2019	1
13	Idi Obnimu	Moscow	<16	2019	1
14	I love coffee	St. Petersburg	<16	2016	2

Source: Results of data collection

It is also important to mention that half of the companies interviewed operate only one coffee house. Of course, there are some exceptions: the biggest company in the sample is “Lafayette Coffee” that has 3 coffee points in different universities in Moscow. “Waff&Love”, “Coffee Plus”, “Maybe Coffee?”, “Duo” and “I love Coffee” have two coffee houses. “Idi Obnimu” is planning on opening a second place by the beginning of this summer.¹

The physical layout of the coffee houses is also similar for most of the companies. Except for “Need Coffee” and “Lafayette Coffee”, all companies have their own relatively small spaces (not more than 70-80m²) with separate entrances. These two exception have their stands in busy and popular locations (“Need Coffee” is located in the hall of the World Trade Center in Moscow, “Lafayette Coffee” targets the students of Financial University where they have stands and the students of the Institute for the Humanities and International Technologies in Moscow, where the company rents its own full-scale coffee house premises). This also identifies the sample as being quite typical to what can be observed in the industry.

In terms of the menu of drinks available in the coffee houses, the companies tend to have similar set of beverages that correspond with the general coffee consumptions trends in Russia: espresso, cappuccino, latte (sometimes matcha-latte), raf-coffee², hot-chocolate and a selection of teas. Most of the places have similar set of sugar syrups that customers can add to their drinks. All of the places have simple set of deserts including popular types of cakes and baked goods. At the same

¹ This is information shared during the interview process before the COVID-19 outbreak which may have had an effect on the company’s plan.

² Raf-coffee – coffee drink created in Moscow, which is made from espresso and steamed cream with added vanilla sugar and cinnamon. It is named after Rafael, a foreign visitor of one of coffee houses in Moscow, who did not like typical coffee drinks and asked local baristas to invent something new. The new coffee drink became extremely popular and everyone asked for “the coffee like for Raphael” (or “for Raf”). Eventually, this recipe became common for most coffee houses in Russia, Ukraine, Kazakhstan and Belarus.

time, some of the coffee houses use some of the positions in their menus to distinguish them from the others. An example is “Waff&Love”, that offers waffles cooked following the Hongkong recipe as the main type of dessert, “Coffee Addis” have special coffee recipes that are made in coffeepot and are connected to certain places in the world, “Point Coffee and Food” and “Maybe, Coffee?” serve simple breakfasts, business lunches and sandwiches identifying themselves primarily as a coffee house.

The average checks of most of the coffee houses fall within the range mentioned in Chapter 3.4 and is equal to 200 - 500 rubles. Slightly higher average checks were identified in “Coffee Addis” where average check is around 600 rubles. The lowest average check is at “DoubleFlip” company, where it is equal to 100 to 200 rubles (the prices are slightly lower than average with the price for normal cappuccino equals to 100 rubles).

All the data described above underlines the similarities within the sample set (which provides us the companies where main characteristics are similar and the differences in strategic approaches can be identified more easily), as well as the fact that the basic parameters match the overall statistics regarding coffee house industry in Russia. This is important for the further generalizability of the findings and conclusions as it indicates that the sample seems to represent the characteristics of the coffee houses across country.

3.6 Potential Limitations and Data Collection Results Reliability

Considering that this research is a multiple case study, it implies certain limitations of the generalizability of the conclusions due to the size of the sample used. The findings of this research this type provide a deeper understanding of the processes inside the companies, however the results obtained should further be tested within a study based on a larger random sample of SMEs across different regions of the country.

In order to increase reliability and credibility of the study, the research was conducted on a sample larger than the target one (target – 12 companies, sample – 14 companies). All the companies fit SMEs’ criteria, they are all from the same coffee house industry with similar products and costs structure. All of them are located in Moscow, Saint Petersburg and Ekaterinburg – large centers of the coffee house industry. The semi-structured interviews ensured consistency of the data obtained, which made it possible to correctly compare the results.

4. Empirical Research Results: Cases Analysis and Comparison

The data collected during empirical research was analyzed in order to understand the strategic behavior of the companies themselves and to identify similarities and trends across industry. As a result of preliminary cross-case comparison, three groups of companies were identified that behave in a similar way regarding their strategic planning, resource management, development of their competences and strategic choice. The criteria that helped to distinguish these three groups is their strategic planning timeframe. It was possible to group the companies in accordance with following time spans of their strategic planning: up to six months, up to a year and more than a year. Within the scope of this study they were named semi-annual tacticians, yearly planners and long-term strategists respectively. The full list of group allocation can be seen in Table 8. The companies analyzed within these groups demonstrated similar perceptions and approaches towards their strategies and operations, that is why it was decided to present and discuss further findings within this framework.

Table 8. List of the Case Companies' Groups form in Accordance with Their Planning Time-Frame

<6 months (Semi-annual tacticians)	< 1 year (Yearly planners)	>1 year (Long-term strategists)
Need Coffee	Point Coffee and Food	Waff&Love
DoubleFlip	Maybe Coffee?	Lafayette Coffee
Forty Niners Coffee	Coffee & Cake	Addis
Petrovskaya Coffeehouse	Duo	
Antipa	I love Coffee	
Idi Obnimu		

Source: Results of data collection

As it can be seen from Table 8, the biggest group of companies based on planning time-frames is the one that plans its action strategically for 6 months or less. Moreover, many of the coffee houses have even shorter time-frames: “Antipa”, “Need Coffee” and “Petrovskaya Coffee House” only plan for 2-3 months. Second biggest group consists of companies planning their operations for up to one year and the smallest group, with only three establishments, plans for more than one year.

It is important to mention that, besides other similarities that were observed regarding their strategic behavior, some similar traits within groups were observed even before analyzing the responses of the managers and owners. The companies that plan for no more than six months have been functioning, on average, for 1,3 years (the oldest one is “Petrovskaya Coffehouse” which was founded in the end of 2017). Those who plan for a year have been operating for 3,4 years on average. The third group, those who plan for more than a year, have been operating, on average for 4,6 years.

4.1 Strategic Planning

The first block of questions and discussion topics deals with strategic planning in the companies. The managers and owners of the coffee houses were asked about their perception of importance of planning for performance, whether their corporate strategic plans are formalized, whether the employees are informed about them, what are the objectives of their businesses and which factors impact the planning.

As it was already mentioned beforehand, a clear distinction in terms of the companies’ planning time-frames was observed, which helped to identify three groups of companies.

Although the overwhelming majority of companies expressed strong support of strategic planning as an important factor of success in their industry, the degree to which they plan their actions significantly differ.

The group of semi-annual tacticians demonstrated the lowest degree of their strategic plan formalization. They have a rough understanding of their operational plans, the operations related to the resources supply, the shifts of their employees. At the same time, the companies tend to avoid any planning of their development as a company. In some cases, the owners have given some thought to expansion, but they do not fix that as a written action plan, that can be integrated in their daily activities. That is why these companies in their ongoing operations are guided mostly by the plans of their routine processes predetermined by what is needed to sustain normal functioning. When their performance is threatened by the market conditions or/and the actions of their competitors, they do not follow their strategic plan (most of the times because they do not have one) and act ad hoc, using available resources. Looking into their future, most of the companies from this group aim at achieving high level of financial stability and increase the profitability of the existent coffee houses. The semi-annual tacticians do not focus on certain individual factors but rather take into consideration all the things that can influence their performance: competitors’ activities (comparing to two other groups, these companies pay significantly more attention to competitors and what they are doing), customer feedback, competitive advantages, financial stability of the company, which is considered as their

ultimate goal. It is to be mentioned, that this group consists of companies that operate only one coffee house establishment (except for DoubleFlip, which has two coffee houses) which can be interpreted as a direct result of their goal-setting or lack thereof. Interestingly enough, although the managers of the companies in this group (just as in the three other groups) confirm the importance of informing employees about the strategy of the company, they tend to inform the staff about the strategic direction of the organization much less compared to other interviewed organizations in the other groups.

Surprisingly, the group that in the second place regarding its degree of plan formalization and strategic planning is the group of long-term strategists. These companies have development plans for up to 5 years. They have a clear understanding of their strategic long-term objectives and some understanding of how they want to achieve them. They also have the routine plans that are used in their daily activities. At the same time, the plans still lack formalization and implementation in their short-term activities. The most of their long-term planning is not fully written and lacks clear connection between the end goals and the current stage. In other words, there are daily operations on the one hand and global goals on the other, that sound more like dreams and aspirations due to lack of “strategic bridges” which would lead the company from present-day state to the goals of the future.

The owner of “Lafayette Coffee” said during the interview: “We want to significantly grow the company and sell it in 5 years”. But responding to the question about the way this plan is organized, he responded: “Me and some managers know our goals, but they are not written. We just make sure that everyone who needs to know this information is aware of our long-term goals”. This approach was observed in all three companies of the third group: they do articulate they goal as achieving stable and constant growth of the company but do not have clear action plan how to achieve that. At the same time, they pay a lot of attention to informing their staff about their future plans, using that as one of the primary means for employee motivation. The founder of “Waff&Love” told that, in their “employees can become partners in the future, and they are aware about that. If they want to grow with us, we will give them opportunity to do that”. In terms of factors, that they pay attention to while adjusting their plans for the future, they are mostly customers’ preferences and feedback and long-term plans. So, the strategic plan in these company exists, but for them is more like a lighthouse somewhere in the future rather than high detailed roadmap.

The highest level of strategic planning was observed in the companies from the group of yearly planners. These organizations not only have clear and highly formalized plans (in most of the companies it was a written plan for a year), but, also, they conduct constant evaluation of the results of their actions and the further steps. Moreover, sometimes they clearly distinguish the functional groups within the company and prepare a separate operational plan for each with its own timeframe. As the owner of “Point Coffee and Food” stated: “It all depends on the task. We have daily, weekly,

monthly and yearly plans. For example, the work with the suppliers has to be done daily, that is why this falls within the respective plan, but when we are talking about opening new coffee houses – this is the target for a yearly plan”. That means that these companies have separate plans for daily activities and for future development with understanding how these plans are connected. That is why, their plans are incorporated to a high degree into their daily operations. It should be noted that the staff is not informed about all the plans but instead receives partial information related to them. These companies tend to be willing to grow in the future but not at the expense of the stability of the business. This means that their plans are, first and foremost, aimed at securing their current position and make it stable regardless external shocks, and secondly to acquire the resources to grow sometime in the future. These companies do not closely follow the actions of their competitors, instead focusing on their customers, their resources and competences.

4.2 Resources: Analysis and Management

As it was already discussed, understanding of the companies’ resources and the way they manage them can help to better understand the manner in which companies determine their strategic behavior. During the literature review conducted before empirical research three main resource groups were identified: *tangible* (material), *intangible* (technologies, culture, reputation) and *human*. The discussion with the owners and managers of the coffee houses revolved around these three resource groups. They were asked how they perceive the impact of different resources on their performance, whether they incorporate resources into their strategic planning and how do they analyze them and make them grow.

Just like in the previous part, here several similarities were observed within the groups of semi-annual tacticians, yearly planners and long-term strategists.

Speaking about the connection of the resources and their impact on the performance, the companies from the group of semi-annual tacticians believe that human resources have the biggest impact on their performance, while the other two groups consider them to have a significantly smaller impact. Considering this perception, it was interesting to see, that, while human resources are important for their performance, the companies themselves do not pay that much attention to the development of the resources. Their efforts in this particular field were limited to material motivation and personal example. This can be attributed to the desire of the companies’ managers to hire best employees and use their skills appropriately rather than educating the staff and helping them grow within the organization. At the same time, in terms of planning, the most attention is paid to the material resources – the companies acting in accordance to their finances, machinery and utilities, as

well as the opportunities to attract external investments. At the same time, the companies from this group tend to assess and evaluate their resources and opportunities for their growth rarely and nonsystematically. While commenting on intangible resources, the founder of “Need Coffee” said that “We are still small company and we do not have sufficient mechanisms to assess the strength of our brand and we do not have product quality control”. This problem mainly concerns intangible and human resources, as tangible resources, being mostly quantitative or can be estimated in quantitative terms, can be easily measured and tracked. In comparison, the other resources, namely intangibles and human resources, are harder to quantify and track. That is why semi-annual planners tend to avoid deep analysis of their intangible and human resources, preferring to limit their efforts to the analyzing social media and internet aggregators.

The second group of companies, yearly planners, demonstrated the highest awareness of their resources. The most important ones are considered to be the intangibles and human resources: the companies not only think that these types of resources have extremely high impact on overall performance but also make a constant effort to multiply and develop them. For example, “Maybe, Coffee?” has a system of “mystery guest” to measure the quality of service and products (when a person visits the coffee house incognito, tests the quality of service and products and then report all findings to the management of the company), “Point Coffee & Food” has established process of managerial education for their employees, “Duo” also conducts educational trainings for their employees, but, what is more interesting, the company also keeps full financial and organizational transparency, establishing a trust-based culture and motivating employees to work together for the good of the whole company. These resources are taken into consideration while creating further plans. It should be noted that this group of companies give heed to the material resources as well, but to a less of an extent compared to other resources, concentrating mainly on the things that, according to the coffee house managers and owners, will help them to differentiate themselves from the others.

Long-term strategists mainly focus on the human resources by promoting growth and development of the employees within the company. Using their long-term growth-oriented vision, the managers and owners give opportunities to the staff to prove themselves and climb career ladder as the company grows. As the founder of “Lafayette Coffee” said: “We motivate through education and realization of personal potential in profession and career”. Of course, this approach has an impact on the planning and falls within the strategic frameworks determined by the entrepreneurs for the future of their companies. In terms of tangible and intangible resources, they also receive attention, however to a lesser degree. They are not constantly evaluated and actions to measure them are limited to social media analysis and review collection for intangible resources and financial reviews for material resources. The case of “Waff&Love” seems to stand out from the group as they are trying to find new ways to increase their brand-awareness through charity and cooperation with educational

institutions. These activities, however, are not systematic and mostly remain on the company's agenda as more of a hypothetical plan. That is why it still cannot be qualified as consistent approach towards intangible resources.

4.3 Competences and Competitive Advantages

Theoretically, the companies should combine and develop their competences in order to achieve sustainable competitive advantage. Moving from the discussion regarding companies' resources, the interviewees were asked about the functional spheres where the companies developed their skills and competences and which competitive advantages help them to gain an edge in the fairly crowded coffee market.

The three groups demonstrated similarities in terms of this part of their activities as well.

In regard to the functional groups in which they are largely successful, the coffee house companies from the group of the semi-annual planners identify their service, operational management and creation of new products as the main functional groups where they succeeded. It should be mentioned that the corporate functions group proved to be the weak spot for these companies as they admitted to lack skills, knowledge and experience. It is important to state that corporate functions group determines the level of financial control and the ability to plan strategically and execute. This confirms the results of the interviews from the previous chapters.

As for the yearly planners, most of them identified their strength in service (all of the companies described this functional group as very developed), product design, branding and corporate functions, which notably distinguish this group. This comes as no surprise considering previous results describing the way these organizations plan and manage their resources.

The third group of companies (the long-term strategists), surprisingly, found it difficult to identify its competences – the managers were not ready to quickly answer the questions and seemed to lack clear understanding of what their biggest strengths are. Nevertheless, through additional questions and following discussion, the marketing functional group was identified as the most developed one for all companies in the group of the long-term strategists – considering their growth ambitions this seems to be reasonable (strong brand is needed to successfully open new coffee houses). Service and sales process organization was also described as one of the groups of skills that these companies acquired significant amount of skills and experience.

Moving from the competences of the companies the managers and the owners were asked about their competitive advantages – one of the core topics related to the objectives of the study. Although, the tri-group pattern was observed here as well, all of the companies agreed on the

following – their product and its quality is their main (or one of the main) competitive advantages. The owners and the managers said that their organizations tend to pay a lot of attention to the quality of coffee beans and milk, the way the coffee is made, the availability of syrups and, maybe, even the presence of their own signature drinks.

As for the other competitive advantages, the companies from the group of the semi-annual tacticians mentioned their efficiency and speed, as well as level of service. Although, the product itself remains the primordial competitive advantage. In the interview the owner of “Idi Obnimu” company said: “what we have is high quality product, friendly and self-confident baristas who can keep the conversation, optimized processes, beautiful logo and design, interesting name”. Speaking about their service, the founder of “Need Coffee” said: “We have an individual approach to every customer and the products of high quality, the things that promote and “sale” our coffee house through word of mouth. People come back for the experience and bring their friends with them”. In terms of the overall changes of these competitive advantages, most of the companies believe that they did not experience significant shifts in this area since opening, keeping the same core competences throughout their existence. Small changes were made with regards to the menu and production processes to increase the quality of final products. The companies from this group do not pay much attention to supporting and developing these competitive advantages.

The companies of the group of yearly planners described their service, flexibility of business and efficiency of processes as key competitive advantages. While speaking about their service, the manager of “Duo” stated that for them “the ability to hear their customer, create the most comfortable conditions alongside with high-quality products” is their forte. Some of the coffee house companies also mentioned efficient human resources management. The founder of “Point Coffee and Food” explained that “the team is always the most important thing”. The organizations mentioned the necessity to rethink certain processes and elements in their company in order to achieve these competitive advantages. For example, “I Love Coffee” had to completely change all its staff in order to achieve better service and product quality. Moreover, these companies constantly make efforts to preserve and develop these competitive advantages. Speaking about securing the competitive advantages of the firm, the interviewee from “I Love Coffee” said that “all our employees have their stake in that, that is why everyone treats this process very serious and in a responsible manner”.

The long-term strategists stated the following competitive advantages (besides quality of product): service, flexibility of the business and innovation capability. While the first two points are directly derived from their competences stated before, the third one was surprising to hear. It was difficult to imagine innovations that could be implemented by the small and middle enterprises in coffee industry. The owners explained that innovation implies original recipes of coffee beverages and desserts that they introduced in their menus and the way they promote them building the whole

brand around it. For example, Hongkong waffles in “Waff&Love” or the coffee beverages linked to the history and culture of different countries in “Addis”. In “Lafayette Coffee” the company is prepared to change and actively uses feedback and customer ideas to improve the menu – the approach that combines organizational flexibility, customer service and innovation capability. It is no surprising that it became the part of their competitive advantages, as innovation capability in coffee house industry is deeply connected to marketing and customer service (the functional groups that were described as the main ones before). It is interesting that the long-term strategists did not identify their competence of creating new products (earlier in this chapter, when the companies described the functional groups of competences that they developed). It may be related to the fact that innovativeness, according to the owners, is mostly related to the initial concept and menu. All further adjustments come from the customers’ feedback. At the same time, these competitive advantages, according to the managers, changed over time, in the aim of maintaining and increasing the competitive advantages of the company. For example, “Waff&Love” over the years understood that they need not only to create new products, but also to promote them. That is why they started paying more attention to their brand and work on creation of community in order to support the further growth of their franchise. “Lafayette Coffee” worked on their internal processes in order to optimize them and increase their efficiency progressively as the company grow.

But can these advantages mentioned by the owners be characterized as competitive advantages according to theoretical descriptions? In order to clarify that, all the interviewees were asked whether they think that their competitive advantages can be easily replicated by competitors. The results demonstrated, that the semi-annual tacticians believe that their core competences that they described can be replicated by competitors, which means that they actually do not have established competitive advantages in its academic sense defined by the scholars. At the same time, the companies from the other two groups were quite confident in their strengths and believed them to be irreplicable as it is based on both material resources and specific combinations of intangible and human resources. As it was described by the founder of “Lafayette Coffee”, “the trust and relationship with our customers is something that is almost impossible to repeat. The competitors may try to do something similar, but they won’t be able to do the same”.

4.4 Business Strategy

After all the main points in the sequence “resources – competences – competitive advantages” were discussed with the companies, the conversation subject was switched to identifying their strategic preferences. In other words, do the companies use one of the three strategic options in order

to achieve sustainable competitive advantage and what is their strategic choice. In order to avoid all misunderstandings, the owners and managers were not informed of the terms “cost-leadership”, “differentiation” and “hybrid”. Instead they heard the rough descriptions and commented on how this fits their perception of how the companies strategize.

The time-frame of planning had also impact on grouping the companies in accordance with their strategic behavior, but in this case the separation line was between those who plan for up to six months and those who plan for longer. All the companies, again, stated that their strategic choice has a direct impact on the way they perform. However, the choice itself was different for the groups of companies identified before.

The group of semi-annual tacticians leans towards the hybrid strategy. According to the managers, they are trying to capitalize on their product quality and service while not being ready to raise the prices, preferring to achieve higher returns through simplification of the internal processes, acquiring new business management experience and increasing control over the production cycle. Most of the interviewees said that they are constantly learning how to improve business processes, which is why their approach towards business management and strategic planning experienced some changes: mostly in the sphere of the delegation of tasks and better understanding of target audience. But, still, companies are using hybrid strategic approach to adapt to the unstable market, which was described by the interviewee from “DoubleFlip” as “very competitive market, there is just too many players, where not only the quality of coffee plays significant role but also its price”.

The yearly planners and long-term strategists concentrate on their competitive advantages creating additional value for their customers and charging for them average or higher price comparing to the market. Over the course of existence, the companies were able to develop their systematic approach and increase the level of communication and mutual understanding with their customers creating communities around their products and brands. Moreover, the investments in employees’ capacity-building pay off – a higher level of expertise resulted in better service, product quality and management control. As the manager of “I Love Coffee” said “for small coffee house to be effective three groups of people should be happy: the company’s investor, the coffee house guests and the staff. If one of the elements falls out, then the whole system becomes unstable”.

4.5 Link to Performance and Growth

The data obtained during the interviews was analyzed through the prism of the companies’ performance and growth in order to understand how their strategic behavior influence their performance.

The worst results were shown by the semi-annual tacticians. According to their managers and owners, the financial results slightly increased but did not change dramatically over time. Moreover, as previously stated, most of the companies (except for one) operated only one coffee house, which confirms their limited growth.

The companies from the group of the yearly planners stated that their performances either “improved”, or, which was more common, “significantly improved”. Three companies out of five (“Maybe Coffee?”, “Duo” and “I Love Coffee”) managed to open second coffee house increasing their size and customer base.

The companies from the group of the long-term strategists described the change of their performance as “improved”, and they manage to increase their size: “Lafayette Coffee” operates three points, “Waff&Love” operates two coffee points and is actively looking for new franchisees.

In order to measure the customer relations of these three groups of companies, the rankings and responses on their accounts on Yandex Maps were analyzed. The yearly planners demonstrated the highest average customer rating with 4,4 out of 5 (Yandex Maps, 2020). Also, it demonstrated very high activity on social media platforms (the channel that was described by many owners as their primary one to gather information about their intangible resources) with an average number of 5122 followers on their Instagram pages. On the other hand, the semi-annual tacticians demonstrated the average rating 4,2 out of 5. Furthermore, they were less present on social media, with two companies from the list completely absent on these platforms. On the whole, they also lack social media reach with only 1190 user on average following their Instagram pages. The group of the long-term strategists, surprisingly, had lower customer rating of 4,1 out of 5 but a very high number of Instagram followers: 7983 on average. (Instagram, 2020)

4.6 Data Summary

All in all, the semi-structured interviews with the coffee house companies in Moscow, Saint Petersburg and Ekaterinburg helped to gather data regarding the strategic behavior of this type of small and middle enterprises in the coffee shop industry. The following questions and topics were discussed: the companies’ planning, resources, competences, competitive advantages, strategies and performance. The data was collected and analyzed in order to identify similarities. Secondary data was also collected. The results obtained during the research can be seen in Table 9, where they were grouped in accordance to the similarities observed.

Table 9. Overview of the data collection results

The companies grouped in accordance with their planning time-frame

	Semi-annual tacticians (Up to 6 months)	Yearly planners (Up to a year)	Long-term strategists (More than a year)
Planning	Low formalization Medium incorporation in daily activities Lower degree of staff informing	High formalization High incorporation in daily activities Medium degree of staff informing	Medium formalization Low incorporation in daily activities High degree of staff informing
Factors influencing the future planning	Customers' feedback Competitive advantages Financial resources Competitors	Customers' feedback Competitive advantages Financial Resources	Customers' feedback Long-term plans
Main objective	Financial stability	Growth with stable financial situation	High growth
Resources	Human resources have highest impact on performance Material resources have the biggest importance for planning	Intangible and human resources have the highest impact on performance and planning	Human resources have highest impact on performance – constant work on their evaluation and growth
Functional groups of competences	Rare and non-systematic resources evaluation Service Operational management Creation of new products	Systematic approach to resource evaluation Service Design Marketing Corporate functions	Constant but not systematic evaluation Marketing Service and Sales
Competitive advantages	Product quality Efficiency and speed Service	Product quality Service Flexibility of business Efficiency and speed Human resource management	Product quality Service Flexibility of business Innovation Capability

	Did not experience changes of competitive advantages. Not much is done to support	Significant changes of competitive advantages Constant work on evaluation and support	Some changes of competitive advantages Not much is done to support
	Easy to repeat	Hard to repeat	Hard to repeat
Strategy	Hybrid	Differentiation	Differentiation
Strategy perception	Strategy and planning are important and directly impact the performance of the company	Strategy and planning are important and directly impact the performance of the company	Strategy and planning are important and directly impact the performance of the company
Performance	Small increase of financial performance	High increase of financial performance	Medium increase of financial performance
	Small growth	Average growth	High growth
	Low average rating from customers and lowest social media activity (comparing to the other groups)	Highest average rating from customers and high social media activity (comparing to the other groups)	Low rating from customers and highest social media activity comparing to the other groups)

Source: Results of data collection

5. Discussion and Conclusion

5.1 Empirical Findings Discussion

The empirical study results obtained during this research provided insights into the way the small and middle enterprises in the Russian coffee shop industry strategize and manage their resources, competences and achieve and maintain their competitive advantages. In order to reach the objective of the research and answer the research questions it is important to analyze the data gathered through the perspective of literature review findings.

The literature review helped to identify the propositions listed in Chapter 2.6 and they laid the foundation for the questions and discussion topics for the semi-structured interviews with the owners and managers of Russian SMEs. That helped to evaluate these propositions and better understand the applicability of the theoretical concepts to the Russian SMEs' strategic approaches.

The interviews conducted helped to identify a high level of strategic consciousness among all companies under study. The managers stated that strategic approach is necessary to win in their market and has high impact on the performance. At the same time, only several owners and managers were clearly aimed at achieving high growth, the fact that contradicts the studies' results (Wang, Walker, Redmond, 2007). Moreover, the personal preferences and opinions did not have clear connection to the degree of strategy implementation into daily activities and the development which is also does not match the conclusions of Sarwoko and Frisdiartara (2016).

Moreover, the statement that the overwhelming majority of the SMEs tend to avoid strategic planning (Cheng, Kadir, Bohari, 2014) was not supported by the results of the interviews. On the contrary, the results demonstrated, that the majority of companies in the study have strategic plans of some degree of formalization. At the same time, the findings of previous studies regarding the degree of these plans' implementation (Majama, Magang, 2017) were supported – even if a company possesses a strategic plan, it does not automatically guarantee implementation. Moreover, the companies often tend to react to changes in the external environment without even considering their objectives and plans making it more a question of self-survival.

In terms of the actual strategy articulation and implementation, the data received from the interviewees helped identify three main groups. These groups were formed in accordance with their strategic planning time-frame. The similarities of these SMEs within these groups were observed in other important fields such as resource management, competences and competitive advantages development. Therefore, the sample was divided into the following groups: planning up to six months, up to a year, and more than a year.

The companies of the first group tend to plan for no more than six months. They have their operational process and plans of resources delivery, but they do not have a long-term understanding of the direction of their future development. That is why, most of their actions are not strategically planned or motivated and represent ad-hoc reaction to the external factors. Because of that, they follow general customers' trends and competitors' activities and their future development plans are mainly influenced by the material resources that they possess. Their strategy can be classified as hybrid as they try to optimize production processes and maintain a high level of product and service quality. While their strategic choice can be theoretically assigned to a certain group, there are doubts about strategic clarity of the managers and owners themselves. The companies know their competences but do not really possess any competitive advantages - as stated during interviews their competitive advantages can be easily replicated by the other market players, hence they cannot be considered as sustainable competitive advantages. These organizations do not properly evaluate their resources and competences and therefore have little understanding of their potential core competences. Their main goal is to secure and strengthen their financial position capitalizing on human resources, which completely eclipses plans for future growth. The results of these companies is characterized by the lowest growth comparing to the others.

The second group of companies demonstrated the highest level of strategic certainty. Aimed at the growth with preserving financial stability of the company, these enterprises tend to have formalized plans based on their intangible and human resources which they incorporate into their activities and constantly review. In terms of competitive advantages, the companies tend to rely on maintaining high quality of their products and services as well as high flexibility of business and efficient operational and human resources management. Comparing to the first group, the advantages of the organizations that plan for a year can be classified as sustainable competitive advantages, because they are perceived as being hard to replicate. These core competences derive from their competences developed over the years of functioning and underwent significant changes. These companies were able to clearly state their strategy: they tend to choose differentiation based on service and product quality. In terms of the performance, these companies demonstrated the highest level of performance growth, increase of the actual size of the companies as well as the highest customer ratings.

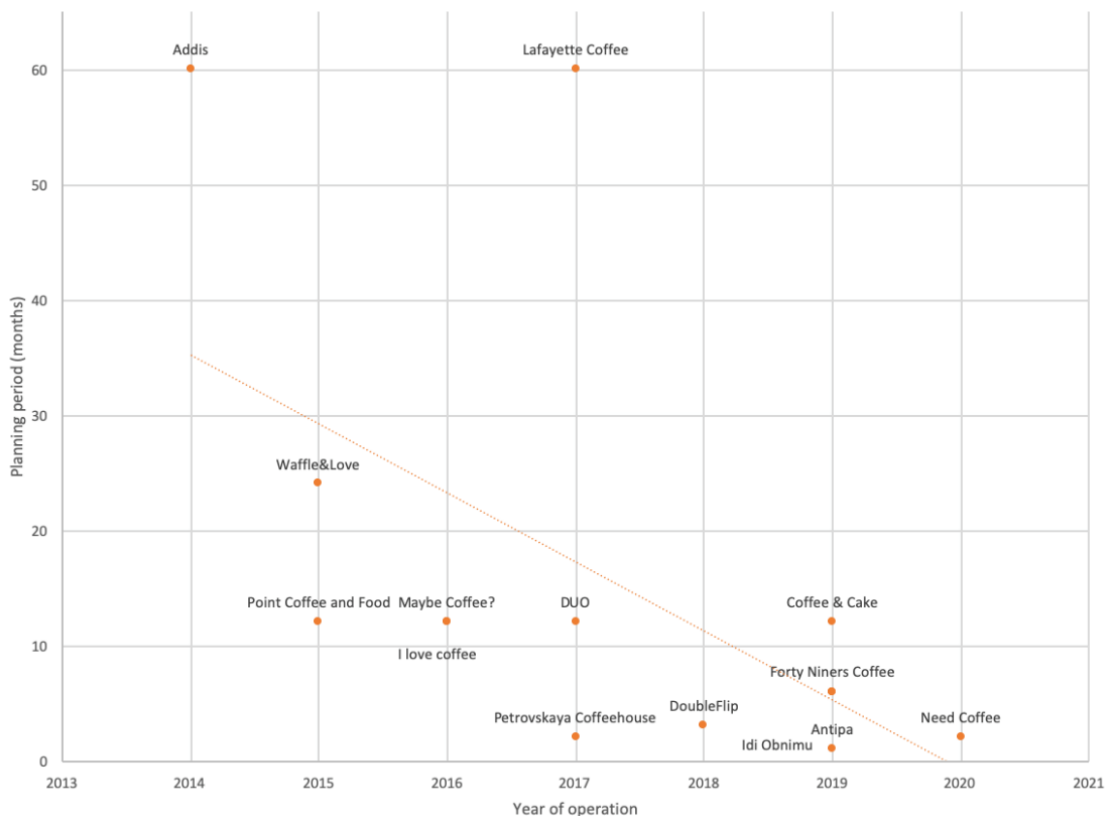
The third group of companies plans far ahead concentrating on their growth. These companies have less formalized planning and lack a clear connection between daily activities and long-term plans. Just as the SMEs from the second group, these enterprises tend to pursue a differentiation strategy, capitalizing on their quality of service and products, flexibility of business and innovation – the competitive advantages that are evaluated and developed from their competences. These companies tend to pay the most attention to their human resources, which they consider to be the

foundation of their future growth. These companies declared the highest growth of the size of the companies and high degree of financial performance growth.

As it can be seen only the first group of companies corresponds with the findings of the study of Portuguese (Gomes, Yasin, Lisboa, 2009) and Kenyan SMEs (Mutunga, Minja, 2014), as they also pursue hybrid strategies in order to adapt to external factors. At the same time, two other groups which represent the majority of the companies of the study lean towards differentiation effectively combining and managing their resources achieving better financial performance and higher growth, what supports the results of the study of Georgiadis and Pitelis (2012). They understand what their future objectives are, and they manage their resources in a way to achieve higher degree of certainty.

In order to illustrate the correlation between planning periods and years of operation, the results have been plotted on a scatter chart, which shows that as a general rule, longer-term planning is mainly practiced by companies that have existed for longer. Graph 4 presents the results of that comparison.

Graph 4. Period of Planning vs. Operation Period of the Companies of the Study



Source: Results of data collection

As described in the chapter 3.6, the companies' planning period largely correlated with the number of years they have existed. The average operating period for the companies of the first group (planning up to 6 months) is 1,3 years, for the second group (the annual planners) – 3,4 years and for the third group (planning for more than 1 year) – 4,6 years. On Graph 4 a clear decreasing trend can be observed which means the decrease of planning period with the decrease of operation period.

This perspective may help to identify the reason why the strategic behavior of different SMEs varies so much and why the results of previous empirical studies provide controversial conclusions. The main difference is not the different characteristics of the companies themselves but the perception of its own position in the market and level of certainty related to the experience and resources accumulated which is connected to the operational period.

At the beginning of their operation, coffee houses feel insecure, they lack a systematic and strategic approach, they work conforming to the resources available and they tend to focus on developing basic competences that would help them to secure their stable place in this competitive market and acquire some customer base. They react to each external situation in accordance with circumstances and the resources available at the moment. They do not have time and resources to train people, so they look for the professional baristas and managers that would provide the customers with good quality and service. At the same time, they optimize the operations expenses and production costs due to resource narrowness. To a large extent their hybrid strategy is a survival mechanism.

Over the course of one-two years, the companies mature, the owners and managers acquire more experience and better understanding of the market. They become more certain in terms of their financial position and establish a rapport with their clientele. That is why they shift their approach and start focusing on developing their intangible and human resources as well as planning for a longer period of time. They develop the organizations' competences and manage to come up with sustainable competitive advantages that help them to secure their market position even more. Consequently, these organizations tend to adopt differentiation as their main strategy, using it not only as the general recommendation but also as a tool that can be applied to their daily activities. Doing all abovementioned steps, these SMEs achieve better financial performance and start increasing in size.

When the companies accumulate significant tangible, intangible and human resources, secure their customer bases and their competitive advantages, they start looking towards business expansion. At this stage, they start planning for more than a year ahead and start losing systematic approach to the work with the resources and competences, focusing primarily on the development of things that matter for their growth: brand and effective human resource management. As for the rest of resources and competences – they tend to capitalize on the potential developed over previous years of operation.

This timeline of SMEs growth and development matches the results of the study of Chinese SMEs conducted by Parnell, Long and Lester (2015) that indicated the shifts of strategies of this type of organizations from cost-leadership to the differentiation strategy at the moments when they are able to acquire more financial resources and achieve more secured market position. Here a similar trend can be observed, however starting from hybrid strategy and moving towards differentiation.

This can be explained by the particularities of the industry itself: it is difficult to achieve significantly lower costs of coffee production without extreme detrimental effect to the final product. In these circumstances the only way to achieve higher margins is to reduce the costs of coffee beans (which is a global commodity with volatile prices, dictated by international markets), which is possible only for the big coffee chains as they have higher bargaining power. But for SMEs this leverage is unavailable, so they try to save on the processes and capitalize on the quality.

These results clearly address the research goal of the thesis and answers to the research questions:

- 1. Do the Russian SMEs have clear strategies?** Studies of the first group, the semi-annual tacticians, that have been in operation for the shortest period, showed that at the beginning of their existence, SMEs do not have clear strategies. After acquiring sufficient resources and competences (and moving into the group of the yearly planners), Russian SMEs in the coffee house industry adopt differentiation strategies based on product, service and branding with clear competitive advantages. When SMEs mature, they become long-term strategists and focus more on growth sticking to differentiation with more attention to human resources and brand capitalization.
- 2. How do these companies adopt strategies?** The general reluctance of owners and managers to adopt strategies was not confirmed. The overwhelming majority of the owners highlighted the importance of strategies for success of their enterprises. The strategic planning time-frame, the resource management consistency, the goal-setting and the choice of strategy are linked to the stage of the enterprise development.
- 3. How do chosen strategies influence the SMEs' development? Do the companies with the strategies perform and/or grow better?** The companies from the groups of yearly planners and long-term strategists (with clear differentiation strategy) tend to perform and grow better than semi-annual tacticians. It is the result of the experience acquired and accumulated resources and competences, that become the base for the strategy implementation and sustainable competitive advantages.

All in all, the results of the empirical study demonstrated clear patterns in strategic behavior of small and medium enterprises in coffee house industry. The companies at the early stages of their existence tend to avoid strategizing, instead concentrating on their daily activities and short-term

planning based on the material and human resources available. They tend to pursue hybrid strategy with low level of strategic clarity. The degree of strategy articulation and implementation increases with an increase of the SMEs' confidence and developing competitive advantages. As a result, they start to pursue differentiation, increase their financial returns and, eventually, grow as a company.

5.2 Theoretical Contribution

The thesis contributes to the understanding of the strategic behavior of the small and middle enterprises in Russia, especially in the services industry, from the perspectives of Porter's generic strategies (1985) and "market-facing" approach to these strategies. The findings of the semi-structured interviews and secondary data research helped to support the applicability of the findings of some previous researches conducted abroad to the reality of the Russian market.

Moreover, the research conducted for this thesis helped to identify the characteristics of different stages of SMEs' operation with reference to their strategic choice, resources management and competences' development. The study also contributed to understanding SMEs' owners' and managers' motivation when making a choice on strategic approach and how it is related to the personality factor.

The insights acquired during the interviews helped to discover the motivations and reasons for the willingness and unwillingness to adopt certain strategic approaches and how this choice is connected to the financial performance and the company's growth. The findings of this research provide with additional evidence and contradicts some of previous conclusions of academic research conducted across the globe. For example, the results demonstrated that the SMEs with differentiation tend to perform and grow better which does not align with the results of the longitudinal study conducted by Leitner and Guldenberg (2010). The results of the study helped to establish the link between previous empirical research in this domain, explaining the discrepancies found among SMEs' strategic choice in different countries (Gomes, Yasin, Lisboa, 2009; Georgiadis, Pitelis, 2012; Mutunga, Minja, 2014) and building the framework for deeper understanding of evolution of strategies chosen by SMEs.

5.3 Managerial Implications

The research results have practical value as it can contribute to the efficiency and performance of the SMEs by lowering the asymmetrical nature of their competition. Through understanding of the

current stage of the enterprise development, SMEs' owners and managers can adjust their operations and achieve better performance compared to the other market players.

This research demonstrates not only the strategic choices of Russian SMEs in the coffee shop industry, but also provides the logic behind them, explaining how the combination of resources and competences lead to achieving sustainable competitive advantage, consequently, achieving better results. The identified best practices of the companies of the study can help the SMEs' management in pinpointing potential sources for future growth and development.

The study has especially valuable insights for the companies operating in the Russian market, as the results were achieved through studying the organizations operating in the same socio-economic and legal environment.

Moreover, the research conducted can be used by other founders and managers of coffee houses in Russia, as it demonstrates the relevance of three business-level strategies to the activities of SMEs in their particular industry. Using the findings and conclusions they can work towards incorporating strategic practices into their daily activities and identify missing elements to improve effectiveness. This may be useful not only for beginner entrepreneurs, but for experienced coffee house managers and owners, as it clearly demonstrates the various business processes of the SMEs at different stages of their development.

The results of the study prove that SMEs that systematically and strategically develop and evaluate their resources and competences are able to acquire sustainable competitive advantages through employing strategies defined in the thesis. Strategic approach, comparing to tactical reaction to circumstances, leads to better performance and growth, that is why the owners and managers should focus on these key elements from the very beginning of the SME's operation. This will help to move to the higher level of certainty perception and start strategy articulation and implementation as quick as possible.

5.4 Limitations and Opportunities for Further Research

The research conducted has a few limitations that could be addressed in the further research. That would provide with better picture of the phenomenon identified and would help to look at the topic from different perspectives.

First of all, the results of the research conducted provide with some insights into SMEs' strategic behavior as well as the motivations and perceptions of the owners of SMEs' regarding strategic choices of their organizations. In order to achieve better understanding of Russian SMEs' in terms of this particular topic, it seems reasonable to approach that research area with quantitative

research based on a bigger sample that would include larger number organizations from more regions of the country. It would allow to draw conclusions using statistical methods. Moreover, the longitudinal study of this topic would also contribute to the conceptualization of the process of the SMEs evolution regarding their operations and strategic choices.

Secondly, it is important to mention that the study was focused on the coffee houses in the three main cities for this industry in Russia: Moscow, Saint Petersburg and Ekaterinburg. Although, these regions play an important role in shaping the whole industry, they do not represent even 50 per cent of the total number of coffee shops in the country. Taking this into consideration, a study with the companies from more regions of Russia would help to generalize the conclusions of this research.

Finally, it worth considering testing the research conclusions achieved in this research applying them to the SMEs from the other industries. That would help to cut off the industry-specific patterns of strategic behavior. This is related to the specifics of the product itself, relatively low costs of starting a coffee house company, particularities of the production process and customer segmentation. The nature of the cost-cutting strategy is relatively limited due to the very nature of the coffee industry. Coffee beans are a global commodity, the price of which is determined on international markets, which therefore creates certain difficulty in reducing costs, while not losing a profit margin. The study of the SMEs not from coffee house industry would increase the generalizability of the findings through helping to identify commonalities between SMEs from various markets.

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